

May 8, 2021 – Weekly Review

Gold and silver prices surged higher this week, with gold ending up by \$63 (3.6%) and with silver up by \$1.58 (6.1%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by 1.6 points to 66.5 to 1, still remaining within the five-point trading range of the past four months of 65 to 1 and 70 to 1. And still down from the 125 to 1 all-time (5000 years) level witnessed in March 2020.

This week's rally was both long overdue and a bit of stealth move. For gold, it was the highest weekly close (\$1832) in three months and which leaves the price down less than \$70 from the yearend close and up by \$160 from the price lows of late March. As night follows day, early indications suggest that the gold rally seems to have resulted in inflows into the gold ETFs after nothing but outflows on the price decline from the price highs of August. The gold holdings in the largest gold ETF, GLD, have nudged back above total COMEX warehouse holdings.

Silver's rally was even more noteworthy in that it was the highest weekly close (\$27.56) in more than 8 months, with only the close of the last week of August (\$28.40) standing in the way of new 8-year weekly closing highs. (Yes, I know silver prices were even higher intra-week over the past 8 months, but this is, after all, a weekly review). For the year to date, silver is now up by more than a dollar.

Remarkably, just about every factor I look at strongly suggests much higher gold and silver prices to come, with only one possible negative factor at play. That one negative factor, of course, is the intent and market action of the 4 largest shorts on the COMEX, particularly in silver. I'll dig into this in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses, cooled off a bit this week, as just under 6 million oz were moved. Still, that's more than 300 million oz on an annualized basis and slightly above the weekly average movement for the past decade. Total COMEX silver warehouse inventories fell again, by 1 million oz to 360.3 million oz, another new 8-month low. The holdings in the JPMorgan COMEX silver warehouse rose by 0.3 million oz to 187.6 million oz.

I've noticed some attention being placed on the near-40 million oz reduction in the COMEX silver warehouses since earlier this year and this is how it should be, given that this is the largest such decline in the shortest time in many years of what is the second largest stockpile of silver in the world (SLV is the largest). Now, if I could only get someone to comment on the unprecedented and unique to silver physical warehouse turnover over the past 10 years, I wouldn't feel so alone.

Total COMEX gold warehouse inventories fell again, this time by 0.3 million oz to 34.5 million oz, and holdings in the JPMorgan COMEX gold warehouses fell 0.1 million oz to 12.53 million oz.

Holdings in the gold ETFs, as just mentioned, appear to have finally ended the 8-month liquidation cycle following gold's price peak last August, with strong inflows in recent days across most ETFs.

In the silver ETFs, it has still been a case of inflows into most of these vehicles, led by the Sprott silver ETF, PSLV (but also others) and outflows from the biggest silver ETF, SLV. I still believe the outflows

from SLV, which have slowed noticeably, are not the result of plain-vanilla investor liquidation, but due to stock to metal conversions by large holders and also by withdrawals by users.

As the largest and most liquid silver ETF, SLV is the most logical place for this activity (conversions and user demand) to occur. Additionally, to this point, I have noticed no pricing differences between SLV and the other ETFs, including PSLV, suggestive of wholesale investor liquidation in SLV. Again, I'm a fan of all silver ETFs and would point out that the total physical holdings in the silver ETFs, now 1.2 billion oz, represent 60% of all the silver bullion (2 billion oz) in the world, whereas total gold ETF holdings of 150 million oz account for just 5% of all the gold bullion in the world (3 billion oz). The reason for this disparity is the necessity for professional storage of silver, because you get so much darn metal for the money, as often pointed out on these pages.

One thing I haven't mention recently is that the tremendous physical flow of metal into the silver ETFs was long-foreseen and predicted, because of the necessary storage element in silver, relative to gold. Early on, my good friend Carl Loeb christened the SLV as the "Death Star" destined to gobble up all the silver bullion in the world (until prices reached true free and fair market levels). The additional silver ETFs introduced since SLV was introduced 15 years ago have only accelerated the process.

Turning to the Commitments of Traders (COT) report issued yesterday, I had one of those knee-jerk sinking spells in the pit of my stomach when first surveying the large (4800 contract) increase in the commercial net short position in silver. This resulted in the largest level of the net commercial short position in silver in 10 weeks. It wasn't that I had predicted a different outcome (I refrained from predictions this week), but the large increase led me to the immediate conclusion that the 4 big shorts had sharply increased their concentrated short position. Fortunately, this was not the case.

Upon the hand calculation of the concentrated short position (something that one has to do to get the actual contract numbers), I was beyond relieved to see that the 4 big shorts had actually reduced their concentrated short position by a few hundred contracts. On Wednesday, I commented how I thought the 4 big shorts did add to their silver short positions on the day of the big rally on Monday, but bought back many of those shorts the next day (the reporting week's cutoff). I'm even more convinced of this likelihood after reviewing this week's report. Remember, the COT report gives you a snapshot of positions as of Tuesday - not what positioning changes may have occurred during the reporting week.

In COMEX gold futures, the commercials reduced their total net short position by 5300 contracts to 201,900 contracts. This is not that far from the lowest (most bullish) level of commercial shorts since the summer of 2019. What makes this extraordinarily bullish is that gold prices touched \$1800 on the cutoff day, up more than \$130 from the lows of March and the market structure is more bullish than it was then. Of course, there's likely to have been deterioration since the cutoff, but not anything that looks particularly ominous at this point.

By commercial categories in gold, and to put a cherry on top of the bullish cake, the 4 largest shorts did most of the buying, in reducing their concentrated short position by 4200 contracts to 145,335 contracts (14.5 million oz). This is among the lowest big 4 short positions in nearly a year. The 5 thru 8 next largest shorts bought back another 1300 short contracts and the big 8 short position in gold is now (as of Tuesday) 205,069 contracts (20.5 million oz). The raptors (the smaller commercials) sold off 200 contracts and are net long 3200 contracts. JPMorgan continues to sit on its hands, no doubt part of its

plan. Nothing special to comment on in yesterday's Bank Participation Report.

On the non-commercial side of gold, the managed money traders were buyers (along with the commercials) in buying 2974 net contracts, consisting of the new purchase of 290 longs and the buyback of 2684 short contracts. That left the other large reporting traders and non-reporting traders as the big sellers, which they were to the tune of 2800 net contracts and nearly 5400 net contracts respectively. On every level, this was a very bullish COT report on gold.

In COMEX silver futures, the commercials sold 4800 contracts, in increasing their total net short position to 68,500 contracts. This was the largest commercial net short position since Feb 23 (unlike the case in gold), but the selling was all by the raptors (the smaller commercials) which sold 5200 long positions and now (as of Tuesday) hold 6700 long silver contracts. The 4 largest shorts bought back nearly 300 short contracts and are now short 57,139 contracts (285.7 million oz). The next 5 thru 8 largest shorts bought back 100 short contracts and the big 8 are now net short 75,183 net contracts (375.9 million oz). Call JPMorgan flat and trying to do its best to make everyone forget its role in COMEX paper positioning over the past few decades, particularly the last 13 years, up until last March.

On the buy side of silver, it was all a managed money affair, as these traders bought 5998 net contracts, consisting of the new purchase of 1933 longs and the buyback and covering of 4065 short contracts. I thought this mix was on the bullish side, as I don't foresee these traders returning aggressively to the short side absent a very dramatic decline in price. The other large reporting traders sold close to 1000 contracts net, mostly due to new short selling.

I had indicated on Wednesday that I was unlikely to react strongly to any increase in short selling by the big 4 silver traders in yesterday's report, given that the CFTC had just responded to my letter as this reporting week was closing. As it turned out, the big 4 didn't end up adding new shorts thru last Tuesday, so there was no big increase to ignore. I did indicate that should the big 4 add aggressively to silver short positions in future COT reports that I would have no choice but to press on with this issue, including with those congressmen and senators on committees with direct oversight on Commission affairs.

If future COT reports indicate the big shorts are up to their same old dirty tricks (selling short until the buyers are spent out), then the only logical course of action is to point out that the Commission was only blowing smoke when it strongly implied that it was considering what I wrote - very much unlike what it had previously written in 2004 and 2008. The next COT report on Friday will be the first such indication about whether the Commission is working to address the concentrated short position in silver - which I have maintained for more than three-decades is all that matters in silver.

There was a very large increase in total open interest of 11,000 contracts in silver as a result of the sharp price rally on Thursday, strongly indicative of likely aggressive short selling by the 4 big shorts on that day's trading, but far from being positively conclusive (the only real conclusive proof is the COT report when it is released). However, the preliminary total open interest for yesterday's high-volume trading, which did feature new price highs amid more mixed trading, indicated a surprising drop of 600 or so contracts and not another big increase as I would have expected.

Of course, there are still two trading days remaining in the reporting week to be covered in next Friday's COT report and a lot can change. It's certainly possible, as I believe occurred in the reporting week ended last Tuesday, for the 4 big shorts to have already added aggressively to short

positions on Thursday's rally, to lower the price boom on silver and buyback their added shorts on a sharp selloff — in other words, the same old, same old.

Such sharply lower silver prices, should they occur, will only intensify the growing groundswell of public ire directed towards the CFTC. While I can understand the growing negative sentiment, I don't particularly condone the leaving of nasty voicemail messages to Commission officials, as that seems overly personal to me — especially since I sense little knowledge on the part of the message leavers of what really matters in silver, namely, the concentrated short position. That said, one sure way to get the public off the Commission's case would be sharply higher silver prices — as it's hard for people to stay angry when they are making money.

Of course, a sharp selloff is not the only possible outcome at this time. Should the Commission have put into play what it strongly implied in its response to me last week and privately informed the big shorts that their manipulative game had run its course, a very different outcome could be at hand. After all, —jaw-boning— or the private communication from regulators to large traders has always been a time-honored tool at the regulators' disposal. Certainly, there can be no question that the Commission knows full-well who the 4 and 8 largest shorts are and if it has not already been in contact with them on this matter, then something is wrong indeed.

If the Commission has come to its senses and finally realizes it is time to do something about the manipulative short position of the largest shorts in COMEX silver futures and has communicated that to the big shorts in no uncertain terms, then it is not a sharp selloff that may be in the cards, but instead a rally of such extreme proportions that few are expecting. In fact, I believe it must be one or the other. The big shorts (if they have added to shorts on Thursday) must rig a selloff to buyback those added shorts or, instead, move to buyback shorts (perhaps under Commission pressure) to the upside for the very first time — aka, Izzy's Full Pants Down Premise.

It is against this backdrop that silver has snuck up to its highest weekly close in 8 months that few are likely even aware of. A sharp selloff at this point will only inflame a growing public already inclined to tar and feather the CFTC. A sharp rally will likely dissipate the anger and even a move to \$50 will only put silver in line with other commodities, like copper, palladium and other PGMs, grains, and lumber. I just don't see the CFTC accommodating the big silver shorts at the cost of further alienating the public — particularly when the big shorts are in the wrong.

The rally this week put gold solidly above its 100-day moving average for the first time in four months, leaving only the 200-day moving average remaining and only \$35 above yesterday's close. Silver, of course is already way higher than all its key moving averages. Considering the still-bullish market structures in each and with the sudden scent of inflation in the air, the traditional go-to inflation hedges look particularly attractive — especially when one considers how under-owned they are compared to every other investment asset.

The sharp rally this week added \$1.9 billion to the big 8's gold and silver short position on the COMEX, bringing those total losses to \$12 billion. While that's still lower than their \$14 billion loss at yearend, as recently as the March 31 close of the first quarter, the total loss was down to \$8.3 billion — so in little more than 5 weeks, the 8 big shorts are \$3.7 billion worse off than they were at the end of the first quarter. Too bad for them — yeah, right.

Ted Butler

May 8, 2021

Silver – \$27.56 (200 day ma – \$25.65, 50 day ma – \$25.86, 100 day ma – \$26.14)

Gold – \$1832 (200 day ma – \$1856, 50 day ma – \$1745, 100 day ma – \$1797)

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