While gold showed signs of bucking the worldwide plunge in asset prices on Friday, for the week both it and silver finished sharply lower, as gold ended lower by $60 (3.2%) and silver by a much sharper $1.51 (6.1%). As a result of silver's extreme relative underperformance, the silver/gold price ratio widened out by more than two full points to 77.3 to 1.

As severe as Friday's selloff was in silver (down 40 cents for the day), the price carnage was much more extreme in other assets and commodities, including the big kahuna, crude oil, which fell by more than $10 (13%), the largest one-day decline since the absolutely crazy days of April 2020, when prices actually went negative. (Curiously, natural gas bucked the trend, finishing up 7% on the day).

Clearly, however, most attention was centered on stock markets, which fell sharply in unison on what was supposed to be quiet and shortened post-Thanksgiving trading. The culprit for the across-the-board price volatility yesterday was reports of the emergence of a new variant of the COVID-19 virus that has dominated the news cycle for nearly two years.

Regardless of how much of a threat the new variant proves to be, there can be little doubt that investor memories are still fresh with the effects and results of original outbreak. It's hard to remember markets that weren't greatly affected by the initial surge of the virus, early in 2020. Some markets, like stocks, real estate and crypto's, after selling off sharply, surged to new all-time highs, both in price and leverage and appear to be vulnerable to corrections at some point, regardless of the news.

Other markets, like gold and silver (the primary focus of this service), sold off sharply into the nadir of the original COVID panic, only to race to new all-time highs (gold) or multi-year price highs (silver) six months later in the summer of 2020 – and then meander lower into the present. Therefore, I thought it might be instructive to compare the conditions that matter most to gold and silver prices back at the time of the original virus outbreak and compare them to conditions today. (I'll give a rundown of the usual weekly review, minus the COT report discussion due Monday, afterwards).

First and foremost, the conditions that matter most to gold and silver prices are the conditions that exist in COMEX futures market positioning. Specifically, I'm referring to the status of the ongoing game between the commercials and the managed money traders – with special mention of the elephant in the room, JPMorgan.

Back in February 2020, with gold trading at a multi-year high of $1700 and silver at close to $19, the COMEX market structure was extremely bearish; with a commercial net short position of 385,000 contracts (38.5 million oz) in gold – a record that stands to this day – and a total commercial net short position of 100,000 contracts (500 million oz) in silver – an amount exceeded only a couple of times prior and never since. Moreover, JPMorgan had a net gold short position of close to 45,000 contracts and nearly 20,000 contracts in silver back in late Feb 2020.

On the subsequent price plunge of $250 in gold and the $7 plunge in silver (to under $12 – a ten-year low) less than a month later, the commercials, led by JPMorgan, eventually reduced their total COMEX net short position by 100,000 contracts in gold (10 million oz) and by an astounding 65,000 contracts (325 million oz) in silver by the spring of 2020. During this price plunge, JPMorgan completely eliminated both its gold and silver short positions, never to return to the short side on the COMEX.

On the run up to all-time price highs in gold of $2050 in August 2020, the total commercial net short position barely exceeded 300,000 contracts and 60,000 contracts in silver (with no short participation by JPMorgan) and prices since then have stalled and meandered above $1650 in gold and $21 in silver to this day. That completes the running commentary, in COMEX market structure terms, of what transpired in gold and silver over the course of the COVID outbreak from early 2020.

Of course, there were also some very extraordinary developments in the physical world of gold and silver, including the remarkably large inflow of 30 million oz of gold into the COMEX warehouses starting in the spring of 2020 and the even more remarkable inflow of 500 million oz of physical silver into mostly the world's silver ETFs at that time. So, where are we today, at what could be a new turn in the COVID saga?

The new COT report to be published on Monday should indicate a total commercial net short position of around 240,000 contracts in gold and around 50,000 contracts or so in silver, including big reductions for the week as a result of the plunge below the key moving averages in both metals. Should those estimates be close to the mark, it would mean that, very much unlike the all-important market structure conditions that existed at the start of the original virus breakout, the conditions presently are nowhere near as negative as they were back then.

Please understand, I have absolutely no concept (and nor, I believe, does anyone else) as to how much of a threat the new variant poses to the world economy or markets. What I'm talking about is quite different, namely, the highly-measurable market structure conditions in gold and silver that existed then and currently. In essence, the market structure conditions existing today in COMEX gold and silver are vastly different than they were in Feb 2020 – much more bullish today than they were back then.

The other important consideration, physical market conditions, also appear much more bullish today than they were back in Feb 2020, by virtue of subsequent and prospective physical flows in both gold and silver. As a result of the march to sky-high valuations in every asset class since the bottom in early 2020, gold and particularly silver, appear extremely undervalued and quite worthy as potential safe-haven alternatives should stocks and crypto's head south. Certainly, with less than $50 billion worth of good-delivery silver in existence, please dismiss any notion that this silver will be sold to shore up and meet margin calls on the many trillions of dollars of assets that may come under downward pressure.

As it turns out, not only has there been virtually no net investment-grade silver sold since early 2020, new investment buying appears inevitable. I am aware of no grassroots movement to buy any commodity other than silver and if physical silver isn't the most tightly-held and under-valued investment asset of all, I don't know what is.

In fact, these considerations heavily-influenced my Tuesday comments, espousing the purchase of silver. At this point, I appear to have been premature and that will be determined by how many managed money traders the commercials can lure onto the short side (I do have a track-record of being too quick on the buy trigger when bullish conditions arise in market structure terms). The important point here is that compared to market structure and valuation conditions that exist today compared to those conditions in Feb 2020, in silver and gold compared to all other assets – there is no real comparison. Please keep that in mind as the news on the new virus gets clarified in the days ahead.

The turnover or physical movement of metal either brought into or removed from the

COMEX-approved silver warehouses amounted to 3.2 million oz this holiday-shortened week, not that much below the adjusted average weekly movement over the past 10 years. Total COMEX silver inventories fell by 0.7 million oz to 352.8 million oz (a bit of a surprise considering Tuesday's approaching first delivery day). Holdings in the JPMorgan COMEX fell a slight 0.2 million oz to 179.4 million oz.

Total COMEX gold warehouse inventories rose by 0.25 million oz to 33.6 million oz, more in line with Tuesday's first deliver day on December futures. Gold holdings in the JPMorgan COMEX warehouse increased by 0.15 million oz to 12.72 million oz.

While I don't detect JPMorgan as holding big COMEX futures positions since the spring of 2020, it sure has been active in making and taking deliveries, both for itself and customers in both gold and silver, as befits its role as the most dominant player in gold and silver.

With the extremely heavy rollover of silver and gold positions from the December futures contracts, and with only one day (Monday) remaining to roll out of the December contracts (to avoid either taking or making physical delivery), one thing caught this old spread trader's attention – the dramatic tightening of the spread differentials in silver. From Monday's close of a 6.5 cent differential between the December and March silver contracts, the differential has tightened in by 3.7 cents to 2.8 cents on yesterday's settlement, barely three trading days later.

Yes, I'm aware that silver prices are down substantially since Monday's close and that interest rates are lower after yesterday's market debacle, but this is still an unusual spread move in silver (by contrast, the spread differential on the comparable Dec/Feb gold switch tightened in by $0.2 from $2.8 to $2.6) over the same time. Therefore, the unusual tightening in the key silver switch raises my attention that it might be due to increased relative demand for the December contract or to avoid having to make delivery. If either one, then add one more bullish factor for silver (which probably means the commercial crooks will have to work that much harder to drive prices lower still).

Somewhat surprisingly in gold, the physical inflows into the gold ETFs, principally GLD, remained strong throughout the week as there was a net inflow of more than 500,000 oz deposited. Physical flows into the silver ETFs were down marginally (less than 300,000 oz), with the main takeaway being the resilience of the silver holders on declining prices. It's hard to imagine the recent resurgence of silver import demand from India not being further reinforced with the recent absolute and relative price weakness.

The ulterior motives of someone highly-placed at the US Treasury Dept in preventing the US Mint from producing Silver Eagles (in order to eliminate any further contribution to physical silver demand) is beyond clear at this time, particularly with the announcement that there will be no coins produced until the New Year. By contrast, the Royal Canadian Mint has been producing Silver Maple Leaf coins at more than 3 million oz per month. A pox on the US Mint and the US Treasury Dept for such a brazen effort at violating a public law to produce enough Silver Eagles to meet public demand.

The new short report on stocks indicated no real change in the short position on SLV, for positions held as of Nov 15, at 28 million shares. As time has gone by, it's more obvious than ever that the main reason the short position in SLV has remained large is because there is extreme tightness in the wholesale physical market (perhaps another reason for the COMEX commercials, also the leading Authorized Participants in SLV to pressure silver prices lower). After all, manipulation is nothing more than the creation of artificial price levels by any means necessary.

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

While it remains to be seen what further fallout, if any may be seen as a result of concerns about the new virus variant, it is much clearer to see that price levels and market conditions today compared to the levels and conditions in place in Feb 2020 strongly favor silver (and gold). Not only is silver's price up much less than where it was prior to Feb 2020 relative to most other assets, its fundamental forces, both physical and COMEX-positioning wise, are much better today compared to anything else. And it's no minor thing that the greatest single force in silver and gold, JPMorgan, is not only no longer short, it is holding incredibly large quantities of physical silver and gold.

Yes, we are all still captive to the fraudulent game of waiting to see how many managed money technical fund shorts the COMEX commercials can lure into the market from this point forward, but that's always of fairly short time duration. All things considered, that's also always the final element before a price liftoff.

I'll have comments late Monday (before 6 PM EST) after the new COT report is published. The report should indicate significant managed money selling and commercial buying or around 50,000 contracts in gold and 10,000 contracts in silver (hopefully more). Key elements will include raptor versus big 4 buying in silver and what, if anything, the gold whale might have done.

As a result of this week's price smash, the 8 big COMEX gold and silver shorts enjoyed a $2 billion reduction in their total losses (from June 2019) to $8.6 billion. A subscriber asked how far silver would have to drop for the 8 big shorts to get back to even. The strict answer is $18 or so, but it's not as simple as that. While it's always possible for any lower price to be hit (look at what just happened in crude oil yesterday), it's not just a matter of price – closing out the 60,000+ contracts likely still held short by the 8 largest shorts requires that much selling by the managed money traders and other speculators. Price is one thing, inducing that much outside selling is something else entirely.

Ted Butler

November 27, 2021

Silver – $23.14 (200 day ma – $25.31, 50 day ma – $23.57, 100 day ma – $24.05)

Gold – $1788 (200 day ma – $1792, 50 day ma – $1791, 100 day ma – $1795)