A sharp Friday selloff erased much of the week's gains, particularly in gold, but both gold and silver prices finished moderately higher for the fifth consecutive week; with gold ending $11 higher (0.6%) and silver closing the week up by 67 cents (3%). As a result of silver's relative outperformance, the silver/gold price ratio tightened in by more than a full point and a half to 75.7 to 1, not coincidentally the strongest silver has been relative to gold in five weeks.

While short term predictions aren't generally worth much, I do get the feeling that silver is about to bust a move higher relative to gold, based strictly on the surging prices for nearly all industrial metals and energy sources. Not a day goes by that another industrial metal or energy source doesn't seem to establish sharp new price highs not seen in many years. And in almost every case, the underlying theme is too much demand and not enough supply – with the additional kicker being that there are no short-term solutions, particularly on the supply side.

There are no quick and easy switches to flip on to suddenly increase the supply of the world's industrial metals and energy sources, particularly after years of insufficient investment in increasing production sources. Just as it has taken years of sub-standard prices to discourage investment and eventually limit total production, it also takes years to reverse the process. Somewhat alarming is the rapid recent fall in the inventories of industrial metals, particularly in London, and warnings that how cold the coming winter will be being the key factor in energy prices. And there is an overlap here, with reports that soaring electric prices are causing curtailments of zinc and other metals production in Europe and China.

With the world coming out of the COVID pandemic and world government efforts seeking to further stimulate economies, the other side of the ledger, demand, seems destined to increase, further exacerbating the metals and energy crunch. Throw in the sudden worldwide supply line disruptions, the like of which we haven't seen since World War II, and the perfect storm of increasing prices for metals and energy would seem to be upon us and is being reflected daily. Yet with all this visible and prices for industrial metals and energies seemingly climbing to records of varying degree, there is one commodity that seems immune to everything going on in the world.

That commodity, of course, is silver, the main subject of this service. If you told me, not that long ago, that industrial metals of all types would be surging to new highs amid supply being insufficient to meet worldwide demand, documented by rapidly depleting inventories and that somehow, silver was left out of the parade of climbing prices, I would have been skeptical – even though no one is more convinced than me that silver is the most manipulated commodity in the world.

Despite knowing that silver has been manipulated and suppressed in price for nearly 40 years by crooked trading practices on the COMEX, I wouldn't have believed that the crooks on the COMEX would be able to pull off pushing silver prices to lows not seen in more than a year, just as other highly-related metals, like copper and zinc, soared to new highs. And given silver's unique dual demand profile – industrial and investment demand – I would say it was impossible for investment demand to have surged in silver over the past year and a half (as it has) and prices still be lower. Yet, here we are.

Admittedly, I look at silver differently than most, and my conclusion to all the above is that silver's price performance and what is occurring in it and all the other metals is two-fold. One is that the proof of a COMEX silver manipulation is more obvious than ever and two, that manipulation is close to ending in a spectacular manner. I never imagined it would take this long and could get to this point – with shortages in just about everything – but, as I just said, here we are.

I suppose there will be still be some who deny the silver manipulation even exists and others who say to avoid it because it is manipulated, but to me it is time to load the boat (if you have any room in your boat).

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses came to just under 4.9 million oz this week, about the weekly average for the past decade, although that does mean that over this time, more than 2.5 billion oz have been moved in total or more than all the silver bullion in existence. Total COMEX inventories fell 2.3 million oz to 357.6 million oz. Holdings in the JPMorgan COMEX silver warehouse fell by 1.6 million oz to 181.5 million oz.

Total COMEX gold warehouse inventories fell a slight 0.1 million oz to 33.8 million oz, while holdings in the JPM gold warehouse were unchanged at 12.61 million oz.

Total world gold ETF holdings continued to fall, this week by nearly 500,000 oz. Total silver ETF holdings also fell by more than 7 million oz, but the decline can be traced to the Deutsche Bank silver ETF, which fell by 8.3 million oz. As you may recall, there was a one-day deposit of nearly that exact same amount a couple of weeks back. I do remember thinking (but not mentioning) at the time that the big deposit might be a reporting error of some type and that explanation looms even larger now. If it wasn't a reporting error, the next most plausible explanation was that it was originally a large purchase that was just converted to shares, but I'm not looking to conclude it was that more bullish explanation.

Of more interest this week was in the flow of metal, first out from and then into the big silver ETF, SLV. Earlier in the week, there was a 2.8 million oz redemption in SLV, which looked odd to me at the time, since silver prices were almost completely flat for the week or so going into the redemption and trading volume was quite subdued. Therefore, I would conclude that the 2.8 million oz redemption was a deliberate conversion of shares to metal to avoid reporting requirements.

Then, on Thursday evening, there was a giant 7.4 million oz deposit in the SLV, which looked legitimate and expected given the huge trading volume and price rise on Wednesday. Based upon the continued price rise on Thursday and somewhat lower, but still high trading volume, I was expecting another deposit last night, but none was reported. Therefore, I believe a good amount of silver is “owed” to the trust, around a few million ounces. Whether that will be reflected in the next short report on SLV, for which the reporting period ended yesterday, may be known on Oct 26 when the new short report is published.

The bottom line on all this is that investment demand is alive and kicking in the silver ETFs, particularly in SLV, which now holds more than 550 million oz, close to half of the 1.25 billion total oz in the world’s silver ETFs. And it continues to amaze me that such apparent hatred is still displayed by many towards SLV and other silver ETFs. Then again, one would be hard-pressed to uncover a critic of SLV and other silver ETFs in which the critic just didn’t happen to offer an alternative form of silver for sale. Yes, I suppose this is understandable, but it’s also self-serving and deceptive.

Turning to yesterday’s Commitments of Traders (COT) report, there were slight deteriorations in both silver and gold, but I basically heaved a sigh of relief that there wasn’t more of a deterioration (managed money buying and commercial selling). We didn't do much price wise over the reporting week except for the sharp up move last Friday, quickly followed by the sharp retreat over the balance of the day.

So, either there was significant managed money short covering early on Friday that was largely replaced over the balance of the day (as I speculated) or there was no early managed money short covering and no replacement of those shorts. I guess we'll never know, but the high trading volume that day persuades me it was likely the former. As far as the positioning since the report's cutoff on Tuesday, there was definitely managed money buying in gold and silver on Wednesday and Thursday, but yesterday's selloff appears to have moderated some of the deterioration.

In COMEX gold futures, the commercials increased their total net short position by 3900 contracts to 207,600 contracts. The 4 largest commercial shorts added less than 200 new shorts, increasing their concentrated short position to 145,315 contracts (14.5 million oz). The 5 thru 8 largest shorts added around 600 new shorts and the 8 largest shorts hold 226,691 short contracts (22.7 million oz). The raptors (the smaller commercials) sold off 3100 longs, reducing their net long position to 19,100 contracts.

On the buy side of gold, the managed money traders were buyers of 4353 net contracts, comprised of new longs in the amount of 4923 contracts and new short sales of 570 contracts. The other large reporting traders were slight net sellers, including selling off more than 2300 longs, but despite this the concentrated position of the 4 largest longs was only reduced by 350 contracts – meaning that, once again, the new gold whale held onto its 35,000-contract long position (despite no mention of this anywhere).

It’s now been nearly two months since this big long position was established and with gold prices largely unchanged since the position was put on, it appears to me that the gold whale has passed the point of ever being accused of manipulating gold prices higher. If the purchase of such a large position hasn’t caused gold prices to be higher by now, making the case later would be problematic for any regulator. I continue to believe the new gold whale, whoever it may be, played this extremely well – perhaps not on a scale of how well JPMorgan has played the gold and silver market over the past decade, but nonetheless, quite well.

In COMEX silver futures, the commercials increased their total net short position by 2500 contracts to 30,300 contracts. The 4 largest shorts did add nearly 2000 shorts and for the first time in a while, I suspect it was likely commercial selling, although I believe a managed money trader is still in the big 4 category. The big 4 short position did rise to 43,215 contracts (216 million oz). The 5 thru 8 next largest shorts added 600 new shorts and the big 8 short position came to 61,198 contracts (306 million oz). While I’m not particularly pleased to see any new short selling by the biggest commercials, until and unless it amounts to 10,000 to 15,000 contracts (or more) of new shorting will I be truly alarmed.

I was pleasantly surprised to see that the managed money traders only bought 412 net silver contracts, comprised of the sale and liquidation of 16 long contracts and the buyback and covering of 428 short contracts. I found it encouraging that as of Tuesday, the managed money traders still had a short position of 42,391 contracts. It wasn’t that many weeks ago that I imagined this gross short position might get as high as 40,000 contracts, so that it was still higher than that on Tuesday is notable. For sure, this short position is now lower, following the rally after the cutoff, but my point is that it got higher than I imagined in the interim.

The market structures in gold and silver are still quite bullish, despite the likely deterioration since Tuesday's cutoff. That's not to say that the commercial crooks on the COMEX will roll over, as evident in Friday's sharp reversal in gold which took prices back below all three key moving averages with little obvious effort. I was somewhat surprised that silver held above its 50-day moving average, although barely so. That I'm still discussing moving averages and COMEX positioning as the biggest price influences in the face of what's going on in the world is somewhat other-worldly.

I came into the professional world of commodities and financial markets nearly 50 years ago as a broker trainee at Merrill Lynch and came to experience perhaps the most tumultuous commodities and financial markets of all time; including the formation of OPEC and the resultant surge in oil prices, to the Russian grain sales and explosion in grain and oilseed prices in the 70's, the surge and collapse in interest rates and every financial boom and bust over the past half-century. Certainly, that includes the movement in silver from $1.29 in the early 1970's to $50 in 1980 back to under $5 a few years later and every subsequent move since then. But there's something about today's markets and financial scene that seems unprecedented, from the degree of government influence to the extreme prices attached to just about everything – both high and low (in the case of interest rates and silver).

Having, essentially, seen it all (even if I didn't fully comprehend what was occurring at the time), I confess to being ill at ease in general with much of what I observe today. Many assets and prices seem way too high, perched on a foundation of speculation and debt and excessive leverage. And this recent surge in industrial metals and energy, despite already hitting multi-year and even multi-decade price highs, seems like it is just beginning, rather than blowing off.

Then, there's silver, whose price has languished despite being beset by the same forces propelling the prices of every related metal, including zinc and copper, which are also key co-metals in terms of production. I would perhaps chalk up and attribute silver's disappointing price performance this year to a falloff in investment demand, since that unique demand factor is what separates it from all other industrial metals. But more investment silver has been bought in the last year and a half, 500 million oz in the silver ETFs alone, than in history, to say nothing of the investment surge in retail forms of silver. Even the unexplained falloff in silver demand from India seems to have reversed.

So, it can't be that silver's price performance can be due to too much mine production and lack of sufficient industrial demand when all other such commodities are in the opposite condition. And it can't possibly be inadequate investment demand because the facts argue the opposite. By the process of elimination, something else quite obvious must be accounting for silver's punk price performance and the explanation gets further reduced to what's occurring on the COMEX. There is no possible, forget plausible, explanation for silver's low price other than COMEX paper positioning dictating prices.

I never imagined the silver manipulation would get so extreme that it would result in silver being the very last industrial metal to respond to chronic physical shortage by price. I always thought the price of silver would be among the first to signal shortage by virtue of its unique investment demand kicker. Instead, the COMEX manipulation has greatly extended the time by which the price would signal the shortage. This is both good and bad. It's bad that silver hasn't exploded in price by now for the obvious reason it would have been better for silver investors not to have waited this long.

But it’s also infinitely better it has taken as long as it has because we’re just at the very start of what will be one of the most impressive price rises the world has ever seen. Because it has taken so long to unfold, we have been given more time to acquire this vital asset. There’s no way the true shortage in silver will remain hidden in the face of growing shortages emerging in everything else. I just never imagined it would get to this crazy point.

The slightly higher gold and silver prices this week did add to the 8 big shorts’ total losses, but nowhere near as much as those losses were at the highs on Thursday. For the week, the total losses to the 8 big shorts grew by $400 million to $8.6 billion.

Ted Butler

October 16, 2021

Silver – $23.35 (200 day ma – $25.61, 50 day ma – $23.28, 100 day ma – $24.85)

Gold – $1768 (200 day ma – $1799, 50 day ma – $1777, 100 day ma – $1802)