

After the fairly dramatic upside reversal Friday a week ago, gold and silver prices didn't do much of anything this week and a rather weak session yesterday, put prices lower for the week, as gold ended \$14 (0.8%) lower, with silver down 20 cents (1%). As a result of the relative even performance, the silver/gold price ratio finished ever so slightly wider at 85.8 to 1, following two prior weeks of a near-incredible five and six full points of movement.

How is it possible for there to be a few weeks of sharp ups and downs in both relative and absolute prices in gold and silver, to suddenly go comatose? What obvious developments occurred in the real world of supply and demand to explain recent (or even longer term) price movements of this type? None that I am aware of, since actual changes in the production and consumption of world commodities always move at glacial-like speed. Obviously, something other than actual changes in supply and demand accounts for price movements in gold and silver (as I have fully-intended to beat into the ground of late, since it is, among other things, illegal according to US commodity law).

The only possible explanation for the main cause of changes in price for gold and silver (and other commodities) is paper positioning on the leading commodities derivatives exchange – the COMEX. This has been the case for decades, but as I have been reporting for months, a transformation of tremendous significance appears in store. After 40 years of price manipulation and suppression of silver, in particular, in COMEX paper dealings, all signs point to the physical market finally achieving supremacy over the illegal derivatives control – the way intended by the all-powerful law of supply and demand.

In last week's review, I mentioned a "Spidey-sense" of something about to happen

based upon the unusual circumstance of the dramatic reversal a week ago Friday. Upfront, that started to look more like a case of wishful thinking (or indigestion) and not of any particular importance, given the lack of price follow-through this past week. But based upon an objective review of this week's developments in silver, both in the physical markets and in the surprisingly bullish COT reports yesterday in silver and gold, any Spidey-sense I may have felt has been replaced by a much deeper sense of the near-impossibility that prices can be contained and suppressed for much longer. I'll save specific COT comments for later, but I continue to be astounded by developments in the physical world of silver, both on a retail and wholesale basis.

Because conditions have tightened for so long in the retail world of silver (more than a year and a half by my count), it's hard to fully-appreciate how expensive and difficult it has become to secure timely delivery of popular forms of retail silver. Small bars and "junk" coins command premiums never seen before and when it comes to sovereign coins, like Silver Eagles and Maple Leaf's, the premiums and lack of timely delivery are downright shocking. I remember buying Silver Eagles twenty years ago for around \$6.50 (a "big" premium to what was sub-\$5 silver at the time). Currently, I am aware of one dealer publishing an open offer to buy such coins at a \$10 premium to the spot price and another upping the ante to \$11.50 over spot. That's more than \$30 per coin and silver prices are still in the gutter.

I have to take a moment to recognize and acknowledge the now-prophetic words of my dear-departed friend and silver mentor, Israel Friedman, who preached the virtues of Silver Eagles and who, somehow, managed to predict that one day Silver Eagles would command a giant premium to bullion (although Izzy also owned silver in bullion form). That son-of-a-gun, Izzy, even correctly predicted that the US Mint

would someday curtail production of Eagles so as not to aggravate an ongoing physical silver shortage. Here's the article I helped him write back in 2007, 15 years ago (last article at the end). I fully-admit to skepticism about Izzy's claims in this regard and it only makes me miss my dear friend all the more.

<https://www.investmentrarities.com/ted-butler-commentary-december-3-2007/>

But it is in the wholesale world of silver that conditions have even been tighter than in the retail world, if that is even possible. Preliminary reports of silver imports into India suggest more than 50 million ounces were imported in September, and that should push full-year imports to more than 300 million oz. That's more than 35% of world annual silver mine production and fully explains where all the hundreds of millions of silver oz taken from the world's silver ETFs and COMEX warehouses have been going to. Indian buyers are quite price-sensitive and dive in when they perceive silver prices to be low, particularly when silver is cheap relative to gold, a metal of which they are the world's largest holders. It wouldn't seem reasonable to conclude the Indians will stop buying silver until it gets much more expensive and at the point when Western price momentum buyers take over.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained extremely active this week, as more than 8.6 million oz were physically moved, an annualized rate of 450 million oz, or more than 50% of annual mine production. Yet, for the most part, the incredible physical turnover in COMEX silver warehouses inventories continues to go completely unnoticed.

Instead, the focus is on total inventory levels and category (registered vs. eligible) changes, something I understand. This week, total COMEX silver holdings fell 2.9 million oz to 301.2 million oz, another three and a half year low and down by close to a hundred million oz from the all-time peak in holdings at the start of 2021, along with new lows in the registered category to less than 36 million oz. Just to try and put things in perspective, since 2011, total COMEX silver warehouse inventories had risen from 100 million oz to 400 million oz at the start of 2021 and have subsequently fallen by 100 million oz to 300 million oz presently – all with great fanfare and notice.

Over the same time span, more than 3 billion oz (that's with a "b") have been physically moved in and out from these same warehouses with barely a notice. Go figure.

Also, there have been recent reports suggesting that not all the silver held in the COMEX warehouses or in LBMA-tallied holdings (largely silver ETF holdings) are available for sale. No argument as this is true for every asset and commodity in the world. Further, whether the silver in the world's silver ETFs or in the COMEX warehouses (either registered or eligible) is available for sale is at the sole discretion of whomever owns that metal. Trying to put a percentage on what is actually available for sale at any given price is generally a fool's errand. It just seems to me, based upon everything that seems to be transpiring and silver's super-low price, that very little actual silver is available for sale. Who, in their right mind, would sell silver at this time and price?

Total COMEX gold warehouse holdings also slipped again, this week by 0.6 million oz to 25 million oz, another two and a half year low. Holdings in the JPMorgan COMEX gold warehouse slipped by half the total decline to 10 million oz.

Holdings in the world's gold ETFs (principally GLD), fell by another 0.4 million oz this week, while holdings in the world's silver ETFs fell proportionally less – by a million oz or so.

Turning to yesterday's new Commitments of Traders (COT) report, I found the data for both gold and silver to be much better than what I had expected, even though I definitely shied away from any actual contract predictions. As a reminder, the reporting week in silver featured fairly strong price gains of as much as a dollar and a decisive upward penetration of the key 50-day moving average, typically a precursor for managed money short covering and new buying.

I don't think I articulated it well in my preview of what likely changes may have occurred in this report, but my greatest fear was that there would be a boatload of managed money short covering, particularly since these same traders had added nearly 12,000 new silver shorts in the two prior reporting weeks as silver prices had just plunged as much as \$3 and downwardly penetrated the same 50-day moving average. Therefore, I was girding for fairly massive managed money short-covering in yesterday's report, particularly considering the sharp upward price reversal a week ago Friday on very heavy trading volume. Such heavy managed money short covering, should it have occurred, would have likely paved the way for another sharp take down in price, as the commercials sought to bring the managed money shorts back into the short fold. Instead, the new COT report indicated less than 1000 contracts of managed money short covering.

In gold, I had expected not much of a change, considering gold's rather tepid price action over the reporting week. Instead, I was more than pleasantly surprised to see that the managed money traders added aggressively to gold short positions and also

liquidated a number of long positions as well – despite the high-volume upward price reversal on Friday, Oct 21.

In COMEX gold futures, the commercials reduced their total net short position by 9800 contracts to 80,200 contracts. There have only been two prior reporting weeks which featured slightly lower total commercial net short positions in gold for three years and those weeks were at the end of this September – which set up and resulted in a quick \$100 price rally into the beginning of this month. Now, it would appear that the subsequent \$100 gold price decline has enabled the collusive COMEX commercials to herd the mindless managed money traders back onto the short side about as heavily as they were before the \$100 burst upward. Wash, rinse, repeat, indeed.

As good as the total gold commercial positioning was, it was just as good or better on a category basis, as the big commercials appeared to be just as successful in buying back many concentrated short positions and in persuading the big managed money shorts to take their place. On a fully-combined basis (commercials plus managed money traders), the big 4 short position increased by around 1700 contracts to 100,792 contracts (10.1 million oz) and the big 8 combined short position increased by 3600 contracts to 169,203 contracts (16.9 million oz).

But on a commercial-only basis, the big 4 short position dropped to 60,000 contracts, down 6000 contracts for the week, while the commercial-only big 8 short position fell by a sharper 11,000 contracts to 115,000 contracts – also not meaningfully higher than the positions held just prior to the recent \$100 rally higher. The question, of course, whenever the commercials are done with maneuvering the managed money traders onto the short side, is whether we'll be witnessing just another \$100 or so

quick rally in gold, or something much more substantial.

The answer, also of course, is still based upon whether the former big commercial shorts add aggressively to short positions as the next rally unfolds or stand aside. The big former commercials did add more than 30,000 new shorts on the recent \$100 rally and now that they have bought back the majority (although not all) of those recently-added shorts, they appear well-positioned to let her rip to the upside (by doing, quite literally, nothing).

The managed money traders in gold were more aggressive sellers than the commercials were buyers, as these traders were net sellers of 13,090 contracts, consisting of the sale and liquidation of 1328 longs, as well as being new sellers of a very hefty 11,762 short contracts. The resultant managed money net short position expanded to 38,788 contracts (72,016 longs versus 110,804 shorts), just a few thousand contracts less than the multi-year record set on September 27 and white-hot bullish on its face.

In COMEX silver futures, the commercials reduced their total net short position by a scant 200 contracts to 8900 contracts. The big story, of course, is any reduction at all in the total commercial net short position, given that silver had rallied as much as a dollar over the reporting week, including the very high trading volume and dramatic price reversal last Friday. There were slight increases in both the big 4 and 8 short positions, but not worth getting into. Nor did there appear to be any changes in the big 4 and 8 commercial-only short positions, which I'll leave at 28,000 and 45,000 contracts respectively, although my sense is they could be a bit less than that.

The managed money traders did buy back 931 short contracts (after shorting close to 12,000 contracts in the prior two reporting weeks), but also sold off 937 longs,

making them net sellers of only 6 contracts. I still feel, however, that the concentrated portion of the managed money short position actually increased, by virtue of a reduction by 3 in the number of reported managed money shorts to 31 traders this reporting week (the same phenomenon existed in gold, where the number of managed money short traders dropped by 4 to 57 traders). Whenever the number of traders in a category drops, the remaining position is automatically more concentrated – all other things remaining the same. This week, the concentrated short position of managed money traders in gold certainly increased and I sense the same to a lesser extent in silver.

What made this week's report in silver so bullish in my view (gold's was bullish regardless) was the refusal of the managed money shorts to rush to cover, particularly in light of the rather sharp rally and upward penetration of the 50-day moving average. I may have alluded to this in Wednesday's preview, in feeling the managed money traders have been toyed with so successfully by the commercials that they have to be weary of being played so badly. It seems that recently, the managed money shorts in both silver and gold can do nothing right.

There's never been any question in my mind that there was absolutely no way the managed money traders would ever collectively profit when holding a large short position. Yes, they have achieved large open and unrealized profits as they built a big short position (on declining prices) and a few of them may have slipped out with realized profits – but no way collectively. In some ways, I suppose, it's remarkable that the managed money traders haven't recognized this themselves, but it's apparent that they haven't, given their strict technical approach. In order for the managed money traders to close out large short positions collectively, that would require the commercials to sell short on lower prices – not something that has ever



occurred. The commercials always buy low and sell high. Always.

Therefore, the only real question is whether the commercials will toy with the managed money traders again - letting them escape fairly gracefully on a price rally, only to maneuver the managed money traders back onto the short side again on lower prices. Or whether the commercials will stand aside on the next rally and put it to the managed money shorts really good (or bad).

Admittedly, it always comes down to this and this time may prove no different - except for one new factor. That new factor is the blatantly obvious physical silver shortage that engulfs us. There's never been a more significant motivation for the commercials to stand aside and not fight the true forces of the physical market than at this precise time. You don't need to be Spider Man to sense that.

(On a housekeeping note - I begin my annual trek back to Florida from Maine tomorrow and as a result, there will be no mid-week report this Wednesday and to expect likely delays in responses to emails).

Ted Butler

October 29, 2022

Silver - \$19.20 (200 day ma - \$21.57, 50 day ma - \$19.07, 100 day ma - \$19.57)

Gold - \$1648 (200 day ma - \$1814, 50 day ma - \$1695, 100 day ma - \$1739)