October 30, 2021 – Weekly Review

Thanks mostly to a Friday selloff, gold and silver prices ended lower for the first week in five, with gold down $9 (0.5%) and silver by 44 cents (1.8%). As a result of silverâ??s relative underperformance, the silver/gold price ratio widened out by a full point to 74.5 to 1, also after five weeks of tightening.

Key developments for the week included continued signs of physical tightness in silver, along with a much greater deterioration in COMEX positioning in yesterdayâ??s Commitments of Traders (COT) report than I was expecting, although there was a pleasant surprise in the one key metric â?? the concentrated short position â?? that matters most to me.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses jumped sharply to 8.3 million oz, the highest weekly turnover in months â?? or 50% of total world mine production on an annualized basis â?? not that many notice, it would appear, even though this crazy-high physical movement has been occurring non-stop for more than a decade and only in silver of all commodities.

What will be noticed (and for good reason) is that COMEX silver inventories did fall sharply this week by 4 million oz to 353.3 million oz, the lowest level since mid-July and now sitting only 3 million oz or so above the lows of the past year. Crazy-high and unprecedented physical movement amid stagnant and falling total inventories conjures up visions of extreme physical tightness, even if few notice. Silver holdings in the JPMorgan COMEX warehouse fell a slight 0.4 million oz to 179.7 million oz.

Total COMEX gold warehouse holdings slipped a slight 0.1 million oz to 33.2 million oz, but by enough to set a new low-water mark since the great inflow of gold back in 2020. There was a very slight 20,000 oz reduction in the JPMorgan COMEX gold warehouse to 12.57 million oz.

There were slight further reductions in the world gold ETFs for the week, but the silver ETFs bucked that trend and rose by a couple of million oz â?? maintaining the remarkably strong grip on silver by investors in these securities. And Iâ??m still very much of the opinion that a large investor continues to buy shares in SLV, the biggest silver ETF, only to convert those shares into physical metal so as to (quite legally) avoid share ownership reporting requirements. In gold, Iâ??ve reported on the big whale in COMEX futures (he or she is still there), but in silver futures there are no signs of a big buyer â?? just in SLV and other silver ETFs. For what itâ??s worth, both approached make sense to me.

Turning to yesterdayâ??s COT report, Iâ??m glad I classified my estimates as being in the WAG (wild-assed guess) category, as the actual numbers came in much larger (unfortunately), particularly when it came to managed money buying. The only saving grace was that the concentrated short positions of the 4 largest traders in both silver and gold were hardly changed, particularly after the prior reporting weekâ??s sharp increase in silver.

In COMEX gold futures, the commercials increased their total short position by 20,500 contracts to 239,700 contracts (I had guesstimated 10,000 to 15,000 contracts). Â This is the largest commercial net short position since Aug 31 and opens the possibility of a selloff similar to the one that occurred back then (although thatâ??s not a prediction). Â Interestingly, all the commercial selling was by the raptors (the smaller commercials), which sold 17,000 net contracts, turning a net long position of 8700 contracts into a net short position of 8300 contracts and the 5 thru 8 largest shorts which added more than 4100 new shorts to a big 8 short position amounting to 231,446 contracts (23.1 million oz).

The 4 biggest gold shorts actually bought back close to 600 shorts and hold 143,762 contracts short (14.4 million oz). Â I donâ??t recall such a previous sharp difference in commercial category behavior.

The managed money traders bought significantly more than the commercials sold on balance, as these traders bought an extremely large 28,563 net gold contracts, consisting of the new purchase of 16,720 longs and the buyback and covering of 11,843 short contracts. Iâ??m not surprised that the managed money traders bought (and the commercials sold), given that gold prices decisively penetrated all its key moving averages to the upside in the reporting week â?? but the amounts bought were a bit unnerving.

On the roughly $100 rally in gold of the past month, there was net buying of 55,000 contracts (5.5 million oz) by the managed money traders and their current net long position of 86,000 contracts puts this position much closer to the highs of the past year than the lows, although on a longer-term basis the position doesnâ??t look excessively long. Still, Iâ??m not aware of any larger buying of gold over the past month, paper or physical, than the documented 5.5 million oz buying by the managed money traders on the COMEX and anyone arguing that this buying isnâ??t what propelled prices higher is howling at the moon. And yes, all this buying by the technical price robots leaves the market vulnerable for a correction (although I wish that wasnâ??t the case).

Balancing out the difference between what the managed money traders bought and the commercials sold in gold was largely selling by the other large reporting traders of more than 7300 contracts, largely in the form of new short selling. As mentioned previously, however, the big gold whale stood pat at roughly 35,000 net long contracts, as the big 4 concentrated long position increased by a hundred contracts. My sense is that this big gold long is in it for the duration, but I will continue to report on the position based strictly on the data (even though, like the documented turnover in the COMEX silver warehouses, virtually no one else is). Ironically, my expectations that new spread contracts being created Â may have swelled total open interest turned out to be accurate as more than 11,000 contracts of phony spread open interest was created in gold, making my wide miss on net positioning change that much more confounding.

In COMEX silver futures, the commercials increased their total net short position by a larger than expected 6900 contracts, to 51,500 contracts (I expected a few thousand contracts). This is the largest (most bearish) commercial short position since Aug 3, just prior to a multi-dollar price blast to the downside. The parallels with that time are a bit unnerving, considering that the managed money traders seem to be the biggest market chumps of all time, capable of permanent hoodwinking, only tempered by silverâ??s still low price and tight physical market.

By commercial category, as was the case in gold, most of the selling was done by the smaller commercials, the raptors, which sold 5900 contracts in reducing their net long position to 10,400 contracts. The 4 biggest shorts only added 100 new shorts to 44,881 contracts (224 million oz), while the 5 thru 8 next largest shorts added 900 new shorts to a big 8 short position of 61,871 contracts (309 million oz).

In the face of the continued commercial mastery over the managed money traders, some small measure of brightness is that, except for the prior week, the concentrated short position of the 4 largest silver shorts is still much less than it has been at the former price highs. And it is somewhat curious that the commercials were so aggressive in selling even before all the key moving averages in silver were decisively upwardly penetrated (unlike in gold). I canâ??t help but feel that the silver commercials sense too high up in silver and they lose the control they have had until now.

On the buy side of silver, it was all a managed money affair (and then some) as these traders bought nearly 9700 net contracts, consisting of the new purchase of 2606 longs and the buyback and covering of 7089 short contracts. The managed money net long position is now up to just over 29,000 contracts, up 24,000 contracts in just two reporting weeks. Â The 24,000 contracts bought by the managed money traders is equal to 120 million ounces of silver. Please think about this for a moment.

The world mines around 65 million oz of silver per month, or 784 million oz annually. Therefore, the managed money traders bought nearly two full months of world mine production in just two reporting weeks. This level of speculative positioning is unheard of in any other commodity. That the buying in COMEX silver was mostly of the short-covering variety was hardly a surprise, instead strictly a question of when it would occur and how much the managed money traders who were short would lose as a result.

Truth be told, I thought they would lose much more and they would have if their commercial counterparties held out for higher prices. Clearly, the commercial sellers were more interested in booking profits and getting in position to hoodwink the managed money traders back onto the short side â?? just as has occurred on countless occasions over the years. Plus, as I just indicated, I think the commercials sold as aggressively as they did due to fears that too much of a move higher in silver would cause them to lose control.

Both the CFTC and the crooked management of the CME Group should be hung on the gallows for allowing this rigged game to continue unabated. The managed money traders and their commercial counterparts are clearly engaged in a massive private betting game that holds the rest of the world, including the silver miners and the investing public, as hostage. Both the CFTC and the CME know full-well that this is not how commodity prices are supposed to be determined and thatâ??s why neither will directly address this issue.

So here we are, back to a position where the crooked COMEX commercials seem set to rig prices lower in order to induce managed money selling. Against the likelihood that a selloff may be the result, must be balanced the clear fact that silver is still dirt-cheap and the physical vise seems to be tightening. Long-term silver investors must brace for another rigged selloff of a dollar or so, but also must be mindful that the price journey to $50 and much higher seems more assured than ever; so some perspective is the order of the day, since the big silver up move will catch almost everyone by surprise.

The sad reality is that we have been living through an incredibly dishonest era where the regulators and those who should know better have turned their backs on doing what is right, even when the evidence is overwhelming â?? not even bothering to pretend otherwise.Â Fortunately, there is the firm reality that when dealing with a tangible commodity, like silver and other industrial metals, the final verdict will belong to the immutable law of supply and demand and the resultant physical shortages that are inevitable and that are now bubbling to the surface. At some point the physical reality will overcome the organized paper price suppression and the reality will seem to occur in a flash, despite building for decades in silver.

Turning to other matters, in the â??how the heck did I miss that?â?• department, I just discovered that back on Sep 28, the Securities and Exchange Commission announced that Dan Berkovitz, who recently resigned as a commissioner at the CFTC, joined the agency as General Counsel and will begin his new role this Monday, Nov 1.

https://www.sec.gov/news/press-release/2021-198

In the weekly review of Sep 11, I speculated that Berkovitz might end up as working once again with Gary Gensler, chairman of the SEC, just as he had at the CFTC, back in 2009. Although I am slightly embarrassed to have missed the official announcement until now, I invite you look up those comments â?? which, fortunately, at least preceded the formal announcement. Further, I did conclude that Gensler and Berkovitz working together was a net plus for the country â?? although they do have a difficult path ahead (as do we all).

Now that itâ??s official, I thought it appropriate to backtrack a bit and fill in the reasons behind my original speculation. Weâ??re all well-aware of the â??revolving doorâ?• between industry and the regulators which results far too often in the appearance of backroom cooperation detrimental to the public interest. One such recent occurrence was the past most immediate chairman of the CFTC going to work for Citadel shortly after leaving office earlier this year. Unfortunately, this seems to be the rule rather than the exception.

I understand full-well that few get (or should get) rich while serving in a regulatory capacity and the opportunity to benefit oneself financially is hard to turn down, despite potential adverse appearances to the contrary. Fortunately, there are others, far too few in number, who view public service as a special calling and who resist the temptation of having public office lead to great personal financial reward.

My speculation about Berkovitz joining the SEC was based upon my perception that he felt a genuine personal calling to continue to serve the public, while he was still young enough and capable of doing so. Therefore, I would have been shocked if he had joined up with a high-profile hedge fund or the like for an enormous personal payday. Berkovitz has displayed a passion for public service since his early days working with the late Senator Carl Levin on the Permanent Senate Investigations Committee before coming to the CFTC in 2009 at Gary Genlserâ??s request.

Each of us have different callings in life and, clearly, I believe Berkovitzâ??s was slanted towards public service. In this regard, he is similar to Gensler, who while a wealthy man based upon his past role at Goldman Sachs, has had no need to cash in on his public service since leaving the private sector. Win, lose or draw, these are the types of public servants I prefer to see, certainly compared to those who serve looking for a big payday.

Yes, I am (still) disappointed that neither Gensler and Berkovitz were able to effectively deal with the ongoing COMEX silver manipulation, but an objective review of their prior tenure at the CFTC would indicate that they were able to get position limits enacted into law, only to have that law overturned in the courts, due the legal power of JPMorgan and the banks. I canâ??t read anyoneâ??s mind, but I think itâ??s a safe bet that both Gensler and Berkovitz are keenly aware, better than anyone, how JPMorgan and the banks completely dismantled all their efforts made to enact position limits. When the bad guys beat the good guys, the good guys are not quick to forget.

Even though Gensler and Berkovitz are now at the SEC and donâ??t have direct jurisdiction over commodities per se, I am comforted by their new role when it comes to any potential trouble down the road with the silver ETFs, including SLV. I believe both men know enough about silver to understand any shenanigans that may be attempted to frustrate the publicâ??s interest in these ETFs. As I have been pointing out, an enormous share of the worldâ??s silver bullion inventory is tied up in the silver ETFs, making them a tempting target for foul play by the bad guys. While Berkovitz and Gensler may not have direct jurisdiction over the commodities markets, the SEC certainly has direct jurisdiction over the ETFs.

On a related matter, both Gensler and Berkovitz have been publicly concerned with certain aspects of the cryptocurrency world, including the proliferation of tokens and decentralized finance (De-Fi), with Gensler arguing that many of these instruments are securities and need to be regulated as such. Along these same lines, Iâ??ve noticed developing interest in silver and gold-related offerings of programs promising physical metal ownership via smartphone applications, such as Kinesis. I canâ??t quite wrap my head around the programs, but I am concerned enough to warn readers to tread lightly.

My main concern revolves around there being no charge for the physical storage of precious metals, which is a bit of an oxymoron, in that legitimate professional physical storage always involves some expense. Not only are no storage charges accessed, there is a promise of a dividend-like return being offered and the promoters are comparing their program to an investment in stocks or bonds or money in a bank account â?? which sounds an awful lot like a security in every sense of the word. I wonder if Gensler and Berkovitz would agree.

https://goldseek.com/article/699-yield-paid-gold-kinesis-money

Please understand that my only interest is in not seeing anyone get hurt. This was my motivation many years ago in suggesting caution with no-fee storage programs, like the Kitco pool account and the Perth Mintâ??s unallocated storage programs, which have recently come under criticism by others. I donâ??t think there could be anything worse than thinking one is fully-positioned for the big up move to come in silver, only to discover too late that one may have picked the wrong vehicle. Please donâ??t let that happen to you.

As of yesterdayâ??s close, the 8 big COMEX shorts in gold and silver made back $350 million on the drop in prices this week, reducing their total net loss to just over $9.1 billion.

I did an interview with Reluctant Preppers concerning my recent thoughts on the reason behind the growing shortages in industrial metals

https://www.youtube.com/watch?v=gYZJQqBEZ-0

In a housekeeping note, itâ??s that time of the year again when I am scheduled to head back to Florida in a few days and as a result there will be no mid-week article on Wednesday and there may be a delay in responding to emails. Next report should be the Weekly Review next Saturday, Nov 6.Â Â Happy Halloween to all.

Ted Butler

October 30, 2021

Silver – $23.95Â Â Â (200 day ma – $25.51, 50 day ma – $23.39, 100 day ma – $24.47)

Gold – $1784Â Â Â Â Â Â (200 day ma – $1794, 50 day ma – $1782, 100 day ma – $1791)

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