September 16, 2023 – Weekly Review

A fairly sharp Friday rally erased a continuing series of new price lows earlier in the week, enough to see gold and silver finish higher for the week, with gold ending $3 (0.2%) higher and with silver ending 15 cents (0.6%) higher. Silverâ??s slight relative outperformance resulted in a fractional tightening of the silver/gold price ratio to 83.4 to 1 â?? or with silver still at shocking undervaluation levels compared to gold.

A subscriber, Dr K, pointed out unusually high trading volumes and rallies in a good number of silver and gold mining companies at weekâ??s end, which may have been influenced by yesterdayâ??s quad-witching option expiration or perhaps some deliberate positioning in the face of what appears to me to be perhaps the best set up Iâ??ve seen for a price explosion in silver (and gold) in terms of COMEX market structure. And yes, yesterdayâ??s new Commitments of Traders (COT) report was every bit as expected and hoped for (I donâ??t know if I could have handled two wide misses in a row).

It occurs to me that I have used the term â??explosive rallyâ?• to describe what I sense is close at hand for silver more times than ever over the past several months. To be clear, the explosive rally I foresee has nothing to do with inflation or interest rates, the Fed, the dollar, other markets, BRICS, the great (and unfortunate) political divide, the climate, or the world going to hell in a hand-basket â?? those are all minor distractions to me as far as silver is concerned. I confess to growing increasingly annoyed at hearing these things trotted out as somehow connected to silverâ??s price prospects (I guess I have become a grumpy old man).

There are only two things that go into my price explosion premise in silver â?? the futures contract positioning on the COMEX between the two trading groups that matter most (the commercials and the managed money traders) and the deepening silver physical shortage. Both are closely related since it has been this unique futures contract positioning that has been at the core of what I claim to be a 40-year price manipulation and suppression and it has taken this long for the price suppression to have so altered the most basic law of supply and demand to have resulted in a physical shortage of a world commodity. With this staring me in the face, what possible relevance could the other various factors bandied about have on the price of silver?

The combination of what appears to me to have been a masterful maneuvering of the managed money traders by the commercials, combined with what also appears to be a wholesale physical market that demands much-higher prices in order to properly function has brought us to what my departed friend and silver mentor, Izzy Friedman, also described as the moment of truth.

However, I must point out that at the origin of the term some decades back, the thought was that the physical crunch that Izzy and I spoke of was to be initiated and set off by a delivery crunch on the COMEX, whereas it now appears that such a delivery crunch will not start on the COMEX, but elsewhere and only reaching the COMEX later on.

Let me run through the usual weekly format before dissecting the new COT report. The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained at recent and longer-term averages, as 4.6 million oz were moved this week. While this weekâ??s physical movement was on a par with the weekly turnover over the past 12.5

years, it must be pointed out that no such similar physical inventory movement occurred or has ever occurred in any other commodity â?? just COMEX silver (and more recently, the silver ETFs).

Total COMEX silver inventories fell a sharp 3.4 million oz to 272.8 million oz, now only some 5 million oz above the multi-year lows set a few months back. Holdings in the JPMorgan COMEX silver warehouse fell by 1.2 million oz to 136.9 million oz, which I believe is a multi-year low.

Holdings in the COMEX gold warehouses fell by 0.2 million oz to 20.9 million oz, which is a fresh 3+ year low, with a decline in the JPM warehouse accounting for much of the total decline, as that warehouseâ??s gold holdings fell 0.15 million oz to 7.67 million oz.

Still nothing special new to report on the ongoing September silver and gold deliveries on the COMEX and hard to discern any connection with price movement.

Physical metal holdings in the gold ETFs continued to fall this week, by about 500,000 oz, following the new price lows earlier in the week, but declines in the silver ETFs abated, despite the moves to new price lows. At weekâ??s end, the combined holdings in SLV and the COMEX warehouses, slipped to 714 million oz, off 2 million oz for the week, all due to COMEX reductions. I still maintain we are scrapping the bottom of the barrel in silver inventories and when we do hit true bottom, prices must then reverse to sharply higher.

Turning to yesterdayâ??s new COT report, the changes were completely as expected in gold and silver, with silver also hitting hoped-for expectations. The reporting week ended Tuesday featured lower prices and multiple downward moving average penetrations in silver and gold, the precise formula for managed money selling – which we got.

In fact, in Wednesdayâ??s midweek review, I limited my expectations to the changes I anticipated on a managed money basis only. I didnâ??t elaborate (because that was a fairly length article), but I refrained from mentioning what I expected the commercials to do, because I wasnâ??t sure what the other large reporting traders and smaller non-reporting traders would do. As it turned out, that was a good move.

My specific expectations in silver were for 10,000 contracts of net selling by the managed money traders and hopefully more. As it turned out, we got nearly 12,800 contracts of net selling by the managed money traders, fairly evenly split between long liquidation and new short selling. I also expected (hoped) the gross managed money long position would fall to 32,000 contracts and it fell to 31,700 contracts Â (hey, I had to make up for last weekâ??s wide miss). So, not only was this weekâ??s COT positioning everything hoped-for, continued fresh price lows since the Tuesday cutoff, particularly the sharp price takedown on Thursday, means that the market structure in silver and gold is even better as of today.

In COMEX gold futures, the commercials reduced their total net short position by 13,400 contracts, to 144,800 contracts, in line with expectations. By commercial categories, the big 4 bought back 5800 shorts and held a net short position of 135,455 contracts (13.5 million oz) as of Tuesday. While not the lowest (most bullish) big 4 short position, along with the similar current level in the total commercial net short position, it looks close enough to me as qualifying as a price bottom in gold.

Finishing up on the commercial categories in gold, the big 5 thru 8 commercial shorts added 4400 new shorts and the big 8 short position still fell to 208,698 contracts (20.9 million oz). The raptors (the smaller commercials apart from the big 8) added 12,000 new long contracts, to a net long position amounting to 63,900 contracts. This is a particularly large raptor long position, the largest since March and I suppose it is possible that a managed money trader may have reentered the big 5 thru 8 short category (explaining the â??oddâ?• increase in big 5 thru 8 shorting), given the increase in managed money shorting. But given the increase in the number of traders in that category this week (5), for now Iâ??ll treat the big 5 thru 8 category as purely commercial â?? which it will soon likely be anyway.

The managed money traders in gold sold 15,794 net contracts, consisting of the sale and liquidation of 2485 longs and the new sale of 13,309 short contracts. The resultant net managed money long position fell to 34,571 contracts (117,737 longs versus 83,166 shorts), much more bullish than bearish based upon positioning over the bulk of this year. Gold may not be as bullishly structured as is silver, but it looks plenty bullish on just about every other consideration.

In COMEX silver futures, the commercials reduced their total net short position by 5700 contracts to 32,000 contracts. Â The biggest shorts didnâ??t do much, with the big 4 buying back a bit over 200 contracts to net short position of 36,209 contracts (181 million oz). The big 5 thru 8 bought back an additional 500 short contracts, reducing the big 8 short position to 51,746 contracts (259 million oz), the lowest the big 8 short position has been on a straight calculation basis (not accounting for the presence of any managed money traders) since March. Separately, the big 5 thru 8 short position, at 15,537 contracts, Â appears to the lowest in memory and bullish on its face. The raptors (the smaller commercials apart from the big 8) added nearly 5000 new longs to a net long position amounting to 19,700 contracts.

On the managed money side in silver, these traders sold 12,780 net contracts, at the upper end of hoped-for expectations, with the distribution of selling nearly evenly split, as 6428 longs were liquidated and 6352 new shorts were added. Interestingly, 4 traders abandoned the long side and 8 new traders joined the short side in the managed money category, meaning all were technical fund-type traders and there is no hint of a big managed money short. The resultant net managed money net long position fell to just 568 contracts (31,715 longs versus 31,147 shorts), extremely low and bullish and no doubt back to a net short position in trading since the cutoff, clearly even more bullish.

Explaining the difference between what the commercials bought (5700 contracts) and the managed money traders sold (12,700 contracts) was 7000 contracts of net buying by the other large reporting traders (4000 net contracts) and the smaller non-reporting traders (3000 contracts). I certainly didnâ??t expect this much of non-managed money buying when I kept my expectations for this weekâ??s report to managed money participation only, but it certainly drove home the point of me passing on what the commercials might do in silver, as there is really no way to predict what these other traders might do (not that I know of).

But the big buying by the other large reporting traders and smaller non-reporting traders this week fully-explains the lack of more commercial buying, particularly by the 4 largest silver shorts, as too much buying competition was provided by these other traders. In other words, the commercials, particularly the 4 big shorts, were prevented from buying back short positions because of the other large and smaller traders doing so much buying.

Along these lines and very much in the speculation department, I did have a strong sense that the 4 big silver shorts were buying on late Thursday night and into Friday on the price pop in silver and hopefully, that will be seen in next Fridayâ??s COT report. Then again, I am biased in this regard and may be seeing what I want to see.

In other developments, the new Office of the Comptroller of the Currencyâ??s quarterly OTC derivatives report for positions held as of June 30 was just released and shows a moderate overall reduction in the total notional value of precious metals positions for the three largest US banks to $438 billion from the level at the end of the first quarter of 2023 (March 31), $468 billion. Given that gold and silver prices were lower by around a blended rate of 3% or so quarter to quarter, the overall decline in total precious metals positions was only a few percentage points greater than the decline in prices.

https://www.occ.gov/publications-and-resources/publications/quarterly-report-on-bank-trading-and-derivatives-activities/index-quarterly-report-on-bank-trading-and-derivatives-activities.html

Bank of Americaâ??s total precious metals position declined by 20%, from $101 billion to $82 billion, the first decline I can recall over the past few years, since BofA suddenly emerged as a big player in OTC precious metals derivatives. Unfortunately, because the OCC report is so (intentionally) opaque, itâ??s impossible to uncover much as to the details of BofAâ??s, or for that matter, any bankâ??s positions. My sense is that the billion oz silver short position Iâ??ve attributed to BofA is largely intact and would only account for $23 billion of BofAâ??s $82 billion total precious metals position as of June 30. I would conclude that Bank of America may have finally awoken to the potential financial disaster it created for itself, but far too late to do much good.

I wonâ??t beat around the bush â?? having been a raging silver bull since discovering the COMEX silver price suppression/manipulation nearly 40 years ago and knowing that all manipulations must end at some point, I had no choice but to be constantly alert to the manipulationâ??s end and the resultant sharply higher prices that would entail. At the same time and all along, I have tried to remain objective and report on those many occasions when it looked very likely that a large commercial short position would result in lower prices. I know for a fact that many subscribers have used those occasions to their advantage â?? with the same being true when the commercial short position was extremely low and favorable for a rally.

But not only does the current very low commercial net short position on the COMEX look to be quite favorable for a silver (and gold) price rally, the deepening physical shortage in silver â?? the natural result of 40 years of artificial price suppression â?? also looks set to exert an upward price force that cannot be postponed. Quite frankly, this combination has never previously existed, making it nearly impossible to fully-grasp its complete dimensions.

And if that wasnâ??t enough, we happen to be smack-dab in the middle of perhaps the greatest overall speculative mania the world has ever experienced, in which by some miracle, silver has not participated, although the setup for a silver participation is clearly in place in the form of an existing platform for ETF and options trading. All that appears to be missing from a speculative boom in silver is for the starterâ??s pistol to go off in the form a few dollar increase in price. Then, the great speculative silver race will be on, not to end until the race is over and prices burn themselves out. The greatest and surest rewards will likely go to those positioned before the starterâ??s pistol goes off.

(Having been spared the worst of Hurricane Lee, but having experienced intermittent brief power outages, Iâ??m sending this out a bit sooner that usually).

Ted Butler

September 16, 2023

Silver – $23.35Â Â (200-day ma – $23.56, 50-day ma – $23.89, 100-day ma – $23.95)

Gold – $1946Â Â Â Â Â (200-day ma – $1930, 50-day ma – $1954, 100-day ma – $1965)

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