September 21, 2022 – Market Facts and Opinion

Facts are what can be demonstrated conclusively and beyond question, while opinions are what those facts may mean. Both are invaluable, but different. Reasonable people can disagree about opinions based upon the facts, but not about facts themselves. So, the first order of the day is to get the facts straight and then to delve into what those facts might mean. The facts and opinion under discussion today involve silver and gold and what has transpired over the past six months.

The first fact is the price at any particular time. We may argue whether we think the price should be higher or lower, but not whether the posted price is accurate. Mindful that price, obviously, changes over time, one wants to be careful about arbitrarily picking changes in price to make a point supporting an existing subjective opinion; such as the price being too cheap or expensive. Instead, today I will attempt to explain why both the price of silver and gold fell fairly dramatically and, mostly in lockstep, from March 8 to the present. The purpose of the exercise is to determine if this will aid in deciphering where prices may go next.

The reason I chose March 8 as the start date, is that's when gold hit its all-time high ($2080) and silver a one-year high ($27.50) and both began a significant decline that has continued, almost to this day. March 8 was an important turning point due to the failure in LME nickel, another fact, but the connection is opinion on my part. From March 8, gold fell around $400 (19%) and silver by $10 (36%), at its recent lows, fairly steep historical price declines for a six-month period. Those are the price facts

The next fact is the decline in visible recorded world gold and silver inventories from March 8 to the present. Here, we are fortunate that Nick Laird from www.sharelynx.com maintains comprehensive records of all recorded world gold and silver holdings on a daily basis, including COMEX warehouse holdings and all ETF holdings. Based upon Nick's data, from March 8, 2022, world recorded gold inventories (non-governmental) fell from 147 million oz to 138 million oz as of today, a total decline of 9 million oz. From March 8, total world recorded silver inventories fell from 1.57 billion oz to 1.44 billion oz, as of today, a decline of 130 million oz.

A set of facts which I would next include would be the net positioning changes in COMEX gold and silver futures from March 8 to today, thanks to CFTC data in the weekly Commitments of Traders (COT) reports. There are two ways of measuring the main changes – either by the total commercial net change or by the net positioning change of the commercials' primary counterparties, the managed money traders. Generally, there is very little difference between the two, so I'll use the net positioning change of the commercials from March 8 to today.

In COMEX gold futures, the commercial total net short position fell from 306,900 contracts on March 8 (at a $2080 gold price) to 110,900 contracts in the latest COT report, a decline of 196,000 contracts (and likely even more in this Friday's COT report for positions held as of yesterday's cutoff). That's the equivalent of 19.5 million oz, or more than double the net reduction of 9 million oz in physical world gold holdings over this same time period.

In COMEX silver futures, the commercial net short position fell from 69,600 contracts on March 8 to 2,600 contracts in the latest COT report, a decline of 67,00 contracts. That's the equivalent of 335 million oz of silver, or more than 2.5 times the 130 million oz that came out of total world recorded inventories over that same time period. Clearly, the net change in commercial (and managed money) futures positioning on the COMEX dwarfed any declines in reported world inventories.

As significant as the commercial net positioning changes have been in COMEX gold and silver over the past six months, another verifiable fact has been an even larger proportionate reduction in the concentrated portion of the short position held by the largest commercial shorts. In COMEX gold futures, the 4 largest commercial shorts have reduced their concentrated net short position from 188,358 contracts on March 8, to roughly 76,000 contracts in the most recent COT report, a reduction of 112,000 contracts (11.2 million oz).

In COMEX silver futures, the 4 largest commercials have reduced their concentrated short position from 54,187 contracts on March 8 to roughly 23,000 contracts today, a reduction of 31,000 contracts (155 million oz). In both gold and silver, these are, effectively, the lowest commercial concentrated short positions in modern market history. For someone who has focused on the concentrated commercial short position as being the lynch pin in the decades-old price manipulation, this might be the most important fact of all.

In physical demand terms, an important feature of the past six months has been the surge in import demand for silver and gold from India and China. Published reports indicate that India imported 58 million oz of silver in August, with this year’s total demand estimated to be more than 250 million oz, or more than 25% of annual world silver production (mining plus recycling). This surge in import demand must come from existing inventories and not a proportionate increase in production and can be traced to the sharp decline in world silver reported inventories.

The final significant fact I would include that occurred over the past six months is the massive rise in the short position on SLV, the largest silver ETF, to record levels. As of August 31 (the most recent date), the short position in SLV has nearly doubled to more than 60 million shares (55 million oz) from where it was at the end of Feb, with most of the increase coming in the past two months.

Those are the most significant facts over the past six months in silver and gold, so now let’s turn to opinion as to what these facts may mean. After all, the whole purpose of establishing the facts is to interpret what those facts mean and the only way to do that is to opine based upon the facts.

Since COMEX positioning changes dwarf changes in world inventories and everything else, it is most reasonable to state that gold and silver prices are determined mostly by the positioning changes between the commercials and managed money traders on the COMEX. That’s not just me saying this, as it is confirmed by the phenomenal recent popularity of those following the COT report. Anyone following the COT reports and now commenting on how bullish is the current low commercial short positions and large managed money short positions is clearly acknowledging the affect such positioning has on price. Otherwise, why would anyone follow the COT reports?

While the overwhelming consensus opinion appears correct to me that the low commercial short position is extremely bullish to future gold and silver prices, it does break down a bit in the collective failure to recognize how the commercials were able to buy the many tens of thousands of contracts they did buy on the $400 decline in gold prices and the $10 decline in silver prices over the past six months. Are these COMEX commercials so gifted and talented so as to be able to buy such massive quantities on such a severe price drop?

Of course, I would contend it has little or nothing to do with talent and everything to do with the COMEX commercials being skilled and collusive market crooks who have learned how to rig prices to get the managed money traders to dance to the commercial's fiddle. Here. I'm not talking about just the past six months, but the last 40 years, seeing how the commercials have always been big net buyers on every down move and big sellers on every rally. I just can't comprehend how those looking at the COT reports fail to see this.

The overriding conclusion from the facts I have just laid out is that something is wrong with this picture and what is most wrong is the price of silver (and gold) continuing to remain at current depressed levels. Yes, in more ways than not, the price of silver has been "wrong" for decades, but never more wrong than currently. I understand, perhaps better than anyone, the frustration and sense of hopelessness that comes with a price manipulated lower for decades, despite overwhelming signs the manipulation can't continue, but does. Any continuation of silver's wrong and too low price is an insult to everything believed to be true, such as the law of supply and demand and a fair and equitable regulatory structure. No issue could be more important and the price manipulation in silver is a very big deal.

Although the silver price manipulation has lasted longer than anyone could have possibly imagined, it would be a serious mistake to think it can last forever. Things that can't continue, won't continue – even if we can't pinpoint the future date of "can't" with precision. Much more important is not getting sucked into the morass of daily gloom based upon the collusive COMEX commercials' latest dirty tricks. Instead, look at the facts over the last six months as I've laid them out and decide for yourself if those facts are misstated in any way. Facts are facts, and I doubt very much the facts have been misreported. And I'm not leaving out, at least knowingly, any other facts that would override the facts I've presented.

If you agree that I have represented the facts accurately, the next step is to consider what likely comes next, in terms of what will it take to change the facts that exist. Assume first, for the sake of discussion, that the price won't change its pattern over the past six months and will remain where it is or continue to move lower. In that case, will the demand from India and China abate, since the demand was created by low prices to start with? And if you believe the collusive COMEX commercials can continue to hoodwink the managed money traders to short massive new short positions on even lower rigged prices, then what occurs next, particularly considering that the managed money shorts have never collectively closed out big short positions with a profit? In other words, what happens if the commercials do succeed in engineering an even larger managed money short position? What comes next?

Of all the facts I've presented, the one easiest and most likely to change – if not must change – is the price itself. The COMEX commercials didn't embark on and achieve their remarkably successful buying binge with the expectation of permanently lower prices. They bought historic quantities in the expectation of historically high prices to come. That means not turning around and adding aggressively to short positions when prices begin to rally – although that will be determined only when prices rally. Yes, an explosion in silver prices will likely turn off Indian demand, but is not to be feared because it will ignite Western demand.

Let's face it, the facts as I've laid them out can't continue indefinitely as presently in motion. By far, the fact most likely to change and change soon is price, unless everything thought to be rational and logical has been rendered obsolete. But it's impossible for the law of supply and demand to rendered obsolete in the end, despite the remarkable criminal success of the COMEX commercials over the decades. The world can't endure for long a circumstance where ever-lower prices increase supply and reduce demand. Try to keep that in mind the next time the crooked COMEX commercials suddenly rig prices lower for no legitimate reason. Instead of lamenting the continued manipulation, welcome it as presenting the investment opportunity of a lifetime.

Turning to other matters (as if that's possible), since there was no sharp rally this week into yesterday's cutoff for the reporting week, I would imagine Friday's new COT report will feature continued improvement (managed money selling and commercial buying) in gold, based upon the price blast to new lows last week. How much improvement is a bit fuzzier because while there should have been significant new managed money shorting based upon the price action and trading volume, we already were at a significant net short position for these traders.

There's no question that the collusive and crooked COMEX commercials greased the gold price skids lower to entice fresh managed money shorting and, most likely, succeeded, with the only constraint being the limits of maximum shorting these traders are capable of putting on at this point. Of course, I'll be interested in how many additional short contracts the former 4 big commercials bought back, although I'm wavering a bit if it will be as many as the 10,000 contracts I threw out on Saturday.

No COT report predictions for silver, as its price action was quite muted. Of course, the market structure in silver is quite bullish as it is and considering that the managed money shorts have already given back the bulk of their open and unrealized profits on the $2 rally over the past two weeks, one would think they may be losing their taste for the short side. Then again, there's no guarantee they won't short aggressively if the crooked commercials can rig a move to new lows, but even if that occurs (which seems unlikely), I doubt the managed money shorts will keep and collectively realize any open profits.

Every week day, without fail, I wake up thinking that today will surely be the day that silver explodes in price. The rest of the day I then explain to myself that while this day wasn't the day, it must be soon, given all the facts. Most remarkable is the recognition of the infinitely-larger number of commentators and investors expecting silver to soar to once-scoffed at price levels compared to the near-universal number of bullish skeptics decades earlier. With so many new eyes and minds discovering the great value that silver represents and with so few legitimate arguments for why silver shouldn't soar in price, it's impossible for me to visualize how a relative handful of crooked traders on the COMEX can succeed for much longer in keeping prices in check.

As I prepare to send this article out, the reaction to the Fed's latest interest rate pronouncements hasn't resulted in as much volatility in silver and gold as typically, relative to other markets as well as to past announcements, but sometimes there's delayed reaction – although I've never understood the connection to Fed activity and metals prices – other than the collusive commercials using it to move markets as they intend. As I get set to hit the "send" button, price have moved up to the highs for the day and week.

Ted Butler

September 21, 2022

Silver – $19.75 (200 day ma – $22.13, 50 day ma – $19.21, 100 day ma – $20.33)

Gold – $1690 (200 day ma – $1832, 50 day ma – $1745, 100 day ma – $1790)

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