September 25, 2021 – Weekly Review

Earlier weekly price gains dissipated and gold and silver prices ended mixed for the week, as gold finished $4 (0.2%) lower, while silver ended 5 cents (0.2%) higher. Silverâ??s slight relative outperformance caused the silver/gold price ratio to tighten in by a bit to 78.1 to 1, leaving silver close to the most undervalued it has been relative to gold this year.

In fact, silver has lost all the relative strength it displayed earlier this year and now sits lower by $4 (15%) year-to-date, while gold is lower by $150 (8%). Had you told me in early February, when all the hoopla about silver (SLV developments, Reddit/wallstreetsilver and the CFTC announcement) were in full force, that we would be where we are price-wise eight months later, it would have been hard to believe. Yet here we are.

Trying to look at world developments, both macro and issues more specific to silver (and gold), the price performance of the precious metals seems even more confusing (and disappointing). In silver, these are truly the times that test oneâ??s mettle. More observers than ever project price gains that would have sounded loony a few years ago, only to be met with the reality that prices are hugging the lows of the last year. What could possibly explain this dichotomy? Only one thing.

That one thing, of course, is the same one thing that has determined silver and gold prices for decades, namely, paper contract positioning on the COMEX. I almost want to apologize for repeating this mantra, week after week, year after year and, in fact, for decades. So, if you go looking for all the things that you would imagine should dictate the price of silver and gold (and other markets), like how much is being produced and consumed and invested in, as well as broader economic factors (like inflation and money creation), you will be left babbling to your dog or to the wall. Yes, those things should determine silver prices, but they donâ??t. Full stop.

The only thing that determines silver and gold prices has been the positioning of certain large traders on the COMEX. More specifically, the positioning of traders categorized as commercials and other traders classified as managed money traders sets prices. Time has shown that the commercial traders, more or less, dictate what the managed money traders do â?? in simple terms, the commercials are the boss of the managed money traders and not the other way around.

Over the decades, since the early 1980â??s, one rule has stood out more than any other â?? high prices usually involve maximum commercial shorting and the likelihood of coming price declines, while low prices involve minimal commercial shorting and the likelihood of future price increases. Of course, the positioning I speak of is a process, not something accomplished in a few days, meaning itâ??s hard to pinpoint when the positioning is complete beforehand (afterward, itâ??s usually quite easy).

The hard rule of thumb is that silver (and gold) is the best buy possible when the commercials are finished with inducing the managed money traders into selling as many contracts as possible. It is both good news and bad that COMEX positioning matters most. The good news is that maximum managed money selling (including short selling) allows one to buy silver at what, historically, have been extreme price lows. The bad news is that as those extreme price lows are established, the willingness and temperament for buying is quite low â?? despite the universal axiom of buying low and selling high.

Good news is also found in the growing awareness that the COMEX positioning battle between the commercials and the managed money traders is what determines prices, as anyone trying to explain prices by fundamental measures is left sounding like a clown. The best news of all is that recent COMEX positioning changes suggest we are at historical levels of positioning changes of great significance. Yesterdayâ??s new Commitments of Traders (COT) report was spectacularly bullish, in that it indicated a level of managed money short selling and commercial buying not seen in years, particularly in silver. Iâ??ll get into the details shortly.

The turnover or movement of physical metal either brought into or removed from the COMEX-approved silver warehouses snapped back from last weekâ??s depressed level to just over 5.8 million oz, slightly above the average weekly movement over the past decade. That this much physical silver gets trucked and moved about each week is mind-boggling, at least to me. Itâ??s just remarkable how much silver gets moved in and out of the COMEX warehouses and how little change in total inventories results. Itâ??s one the greatest silver mysteries of all. Total COMEX silver warehouse inventories rose a scant 0.2 million oz to 360.5 million oz, while holdings in the JPMorgan COMEX warehouse slipped by 0.2 million oz to 183.7 million oz.

Total COMEX gold inventories remained unchanged for a third week at 34.1 million oz, while holdings in the JPM COMEX warehouse rose by 0.5 million oz to 12.63 million oz.

A decent chunk of gold (0.6 million oz) was redeemed in the worldâ??s gold ETFs this week, while metal in the worldâ??s silver ETFs increased a bit.

The new short report for securities released last night indicated (finally) a reduction in the short position for SLV, the big silver ETF, of 5 million shares to 33.2 million shares (ounces) as of Sep 15, nearly negating the 6 million share increase in the prior reporting period.

https://www.wsj.com/market-data/quotes/etf/SLV

While this short report is notoriously difficult to predict (at least for me), I will be quite surprised if the next report, due Oct 11, for positions as of Sep 30, doesnâ??t indicate an even sharper decline, due to the very heavy trading volume in SLV on big price down days in the current reporting period and no big redemptions in the trust. It has been quite an anomaly to this point that the short position in SLV has not fallen sharply in the face of the historic reductions in the commercial short positions on the COMEX. Normally (whatever that is nowadays), the short position in SLV tracks the commercial short position on the COMEX, but that has not been the case of late.

My best explanation for this disparity is that the wholesale physical market has been so tight in silver that the stubbornly high short position in SLV reflected that physical tightness and that it took the recent pronounced price thumping for the shorts in SLV to finally buyback and close out a good chunk of their shorts. In other words, the only reason for why the short position in SLV remained so high is because insufficient available physical silver existed to be deposited, forcing the short selling of shares. Iâ??d love to know what involvement the trustâ??s sponsor, BlackRock, has had with the short sellers in SLV, and my guess is quite a lot.

Turning to yesterdayâ??s COT report, it was one for the record books in many categories and, clearly, met any and all expectations for managed money selling and commercial buying in both silver and gold. It was a given that such positioning would occur due to the sharp, deliberate price smashes over the reporting week ended Tuesday. The only reason I refrained from specific large contract predictions was the already-bullish market structures existing (and not wanting to put a jinx on the report).

In COMEX gold futures, the commercials reduced their total net short position by 21,600 contracts to 212,600 contracts. This is the lowest (most bullish) total commercial net short position in six weeks and among the lowest readings in months. Further, adjusting for the presence of the new long gold whale, whose position appears mostly intact, at 35,000+ contracts, the total commercial net short position would even be that much lower and more bullish, effectively, the lowest it has been in years.

By commercial categories, the 4 big shorts bought back around 4100 short contracts and hold 149,801 contracts net short (15 million oz). The next 5 thru 8 largest shorts bought back 5200 shorts, putting the big 8 short position at 228,643 contracts (22.9 million oz). The raptors (the smaller commercials) added 12,300 new longs to a net long position amounting to 16,000 contracts (as of Tuesday).

The managed money traders in gold sold even more than the commercials bought, as they sold 24,378 net contracts, consisting of the sale and liquidation of 11,060 long contracts and the new sale of 13,318 short contracts. The managed money net long position of just under 47,000 net contracts is near the lowest (most bullish) levels in years. The other large reporting traders were net buyers of 4200 contracts, mostly as a result of short covering. The big 4 net long position dropped slightly (by 1200 contracts), indicating the new big gold whale was largely intact (as mentioned above).

In COMEX silver futures, the commercials reduced their total net short position by a quite significant 12,100 contracts to 28,100 contracts. This the lowest (most bullish) total commercial net short position since the spring of 2019, when silver was priced around $14. Not even in the depths of the price smash of March 2020 (which current conditions remind me of) when silver traded under $12, was the commercial short position as low as it is now. Back then, it became clear in hindsight, JPMorgan used that great price smash to buyback and cover its COMEX gold and silver short positions entirely, never to return to the short side. The current price smash appears to be occurring with no overt input from JPM â?? itâ??s strictly being run by the remaining big COMEX shorts.

So extreme was the positioning changes in silver on this deliberate price smash that it has distorted the normal measures I use to analyze the different categories. Because at least one managed money trader has entered into the ranks of the 4 big shorts and at least one or more other managed money traders are now in the big 5 thru 8 category of big shorts, all my normal categories have become distorted. This is definitely not bad in any way, just different.

The headline commercial net short position hasnâ??t changed at all and, as just described, is lower and more bullish than it has been in years. But with at least one managed money trader in the big 4 short category and one or two more in the big 5 thru 8 short category, the concentrated short position in silver is no longer exclusively commercial. For example, the concentrated short position of the 4 largest shorts did decrease by 2100 contracts this reporting week to 44,825 contracts, but the portion held by commercials dropped by much more, meaning the true commercial concentrated net short position is much less than that. I would estimate that the true concentrated short position of the commercials is now lower than it has been in many years.

In fact, the gross short position of the managed money traders is now larger than either of the gross short positions of the two commercial categories (Producers/Merchants and Swap Dealers). This week, the managed money traders added more than 12,400 new gross silver shorts, while the combined commercial gross short covering was more than 10,000 contracts – simply astounding quantities considering the already bullish market structure.

Simply put, the managed money traders added 62 million oz of new shorts, while the commercials bought back more than 50 million oz of silver shorts â?? a net swing of more than 112 million silver ounces â?? the better part of two full months of world mine output. Please stop for a moment to think about this. More equivalent ounces of silver changed hands over the reporting week between the commercials buying back short positions and the managed money traders adding new short positions than changed hands in any other form or venue and all on sharply lower prices. A number of thoughts come to mind.

First and foremost is that since no actual position changes in the world of silver came close to the documented COMEX positioning changes, it must be concluded that this positioning was the prime, if not sole driver of price. Second, we knew there would be commercial buying and managed money selling even before the COT report was published for the simple reason that there has never been a large price drop in which the commercials have not been heavy buyers and the managed money traders have not been heavy sellers. Never. Finally, knowing that the managed money traders have never collectively closed out massive short position (as they hold now) profitably, we know that the commercials have the upper hand and, ultimately, control what the managed money traders do, as opposed to any idea that the managed money traders are the ones leading the commercials around by the nose.

So clear is the evidence, accumulated over the decades, that silver prices are set and determined by commercial control of the managed money traders that nothing but great shame and disgust must be directed to the federal commodities regulator, the CFTC. After all, it is the Commissionâ??s own data which show that silver prices are set, not by developments in the real world of actual production, consumption and investment, but by speculative and manipulative paper positioning on the COMEX. The Commission should and must know this and we are all diminished by its failure to rectify a circumstance that, not coincidentally, happens to be its main purpose for existence. A pox on its house.

On a much more practical level, as a result of the success of the commercials to hoodwink and snooker the managed money traders into putting on massive short positions yet again, the price of silver is set up for an explosive price move higher, delayed but very much intact. Can the commercials induce the managed money traders to add even more shorts on even lower silver prices? Of course, that is possible and no one, certainly not me, can pinpoint in advance the precise moment the managed money traders will be done adding new silver shorts. But it is a certainty that before long they will be done (if they are not done already).

I was expecting the managed money traders to add roughly 6000 new shorts this reporting week, bringing their gross short position to 40,000 contracts, slightly more than the previous peak of just under 39,000 contracts on the price smash of early-August. Instead, they added twice as many new short contracts as I expected, increasing their gross short position to nearly 47,000 contracts. Somewhat surprisingly, there was virtually no managed money long liquidation, strongly implying that the 48,000 contracts held gross long by these traders is not technically-oriented and not likely to be sold on further lower prices.

Although the large addition of new managed money silver short contracts was the standout feature of this reporting week (along with the sharp reduction in commercial shorts), there were some other not so obvious benchmarks. The smaller non-reporting traders hold their lowest net long position in a year and among the lowest of the past several years. The other large reporting traders hold their largest net long position in more than a year and a half and were notable buyers this reporting week.

Perhaps most importantly, the massive managed money new shorting this reporting week changes meaningfully the basic equation for how many new short contracts the big commercials will have to add short to cap and contain the next price rally of significance in silver. Previously, I had estimated that the big shorts would have to add 20,000 to 30,000 new shorts (above and beyond raptor long liquidation) to cap and contain prices on an eventual upward penetration of the key moving averages.

As a result of the new managed money shorting, the number of new shorts the former big commercial shorts would need to add in order to cap and contain silver prices gets kicked up to 30,000 to 40,000 contracts (and more). Â Maybe Iâ??m reading it all wrong, but this increases the odds the former big commercial shorts will stand aside on the next significant silver rally.

Iâ??m intentionally leaving out raptor calculations in silver this week as itâ??s hard to get a handle on the true net short position of the largest commercial shorts, now that the ranks of the big 4 and big 8 in silver are so infiltrated with managed money shorts, with at least two and maybe more in the ranks of the big 8.

To those who wonder (rightly so) how is it that the managed money traders in silver canâ??t see how they are being played for fools and victims by the commercials and being set up to buy back the bulk of their new shorts on a buying panic to the upside, itâ??s a question that goes back decades. Those managed money traders adding shorts are exclusively technically-oriented traders seeking to uncover developing price trends.

They are generally highly-disciplined mechanical traders who eschew any concept of actual supply/demand fundamentals and any subjective concept of over or undervaluation. They are traders looking at price direction and little else. I have used the term â??brain-deadâ?• in the past, not so much in a pejorative or insulting sense, but to describe how they consider price direction and little else. Iâ??m fairly certain that the commercials, where most of the managed money traders hold their trading accounts (talk about incestuous), are quietly egging on the managed money traders to keep adding new shorts (as the commercials are buying back shorts), but canâ??t prove it.

I have maintained all along that if the managed money traders are inclined to add new silver (and gold) shorts, such adding must and will occur on lower prices, as has occurred. I couldnâ??t and donâ??t see anything else that would result in lower silver prices than new managed money shorting and thatâ??s still the case. Iâ??m also still more inclined to believe that the previous peak of close to 90,000 managed money shorts of two and a half years ago will not be close to being replicated this time around for a number of reasons, mainly centered on where the new managed money shorts intend to buy back added shorts should price turn higher. Since we are anywhere from $1.50 to $3.50 below the key moving averages in silver, that would remain a discouragement for any heavy additional new managed money shorts â?? but I donâ??t control what these traders will or wonâ??t do.

As rotten, depressing and soul-draining as the silver (and gold) price action has been for more than a year (did I say money-losing?), in the face of near-universal bullish outside factors, the market structure on the COMEX has rarely been as bullish as it is currently. Itâ??s sort of easy to understand intellectually how lower prices draws in new managed money shorting and commercial short-covering, but much harder to reconcile the resultant bullish market structure with decimated account balances.

Unfortunately, thatâ??s the way it is, namely, things feel most bleak right before a decisive turn up.

The fade in prices as the week wore on, resulted in the 8 big shorts slightly reducing their total losses by a bit, down to $8 billion (I remember when a loss of as much as $8 billion was the most ever). With Thursdayâ??s end of quarter approaching, itâ??s hard to handicap prices over the next few days, but I believe the big shorts are most concerned with how many gold and silver shorts they have already covered and could close out.

Ted Butler

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Silver – $22.40Â Â (200 day ma – $25.82, 50 day ma – $24.09, 100 day ma – $25.60)

Gold – $1750Â Â Â Â Â (200 day ma – $1807, 50 day ma – $1792, 100 day ma – $1815)

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