

## September 9, 2023 – Weekly Review

Gold prices fell \$23 (1.2%) for the week (its gain of the prior week), while silver prices got clocked for \$1.35 (5.5%). The sharp relative underperformance for silver pushed the silver/gold price ratio wider by nearly four full points to 83.75 to 1, close to where it was 3 weeks ago and signaling that silver is on sale again relative to gold as it has been for years.

It was expected that gold would hold up better than silver following recent positioning changes on the COMEX, but after this week, the downside in silver looks limited although additional salami slices lower to induce maximum managed money technical fund short selling is possible. However, let there be no mistake, the pronounced price weakness in silver this week was a direct result of highly-deliberate commercial price-rigging on the COMEX designed to induce maximum managed money selling, against a backdrop of continued evidence of physical shortage in the wholesale market.

At some point in the near-term, the commercials will have maneuvered the managed money traders into maximum selling (long liquidation and new short selling) and then we will face the latest in what has been a never-ending series of moments of truth in which the path of price will be solely dependent on whether the big commercial shorts on the COMEX add or not to short positions when, not if, the next rally commences. I'm still betting the big commercial shorts will stand by and stand down when the next silver rally commences and if they do, the rally will prove to be explosive. That's the whole basis for my Code Red premise.

The new Commitments of Traders (COT) report was as wide of the mark of my expectations as would appear possible, but did eventually make sense in light of recent developments and analysis and I'll dig into the details after first running through my usual weekly format, which has largely come to mean physical shortage developments in silver.

The turnover or the movement of physical metal either brought into or removed from the COMEX-approved silver warehouses remained strong this week as just over 4.6 million oz were moved over the holiday-reduced four-day workweek and when fully-annualized comes to 300 million oz. Total COMEX holdings fell by 2.1 million oz to 276.2 million oz, including a drop of 0.6 million oz to 138.1 million oz in the JPMorgan COMEX silver warehouse.

No other commodity comes close to the frantic physical turnover in COMEX silver, despite its daily (free) reporting and the fact that these same daily statistics are examined on a microscopic basis by many. It was suggested to me that perhaps the significance of the physical silver turnover was lost on most because it was so darn simple that its significance was overlooked despite it occurring non-stop for more than 12 years.

In an attempt to keep it as simple as possible, imagine any business dealing in a physical product – a car dealership or lumber yard or supermarket whose physical inventory turnover was way higher, by many times, than other similar businesses. Wouldn't we all conclude that the businesses with the highest turnover were doing something much better than other competing businesses that didn't have anywhere near the same inventory turnover?

Of course, when comparing the frantic inventory turnover in the COMEX silver warehouses with the lack of similar turnover in any other commodity, we're not talking about silver being better just

different. So, the real question is why is silver different? Everything I look at tells me that the physical turnover in silver inventories is due to continued high demand that requires inventory replenishment at rates far in excess of other commodities â?? bordering on physical shortage. As always, alternative explanations are sincerely welcomed.

In COMEX gold inventories, total holdings fell by around 250,000 oz to 21.1 million oz (rounded), about the lowest of the past few years. Holdings in the JPM warehouse were unchanged at 7.83 million oz.

Nothing special to report on the continuing deliveries in the September COMEX gold and silver contracts.

There were continued reductions in the worldâ??s gold ETFs of a few hundred thousand ounces, mostly in line with price weakness this week, but it was a bit different in silver, at least in SLV, the largest silver ETF. It seems that lately, the physical metal flows in SLV have become completely counterintuitive, regardless of price direction. After losing 13 million oz over the past two weeks in SLV on mostly higher prices, yesterday there was a deposit of 3.2 million oz in the face of extremely weak prices. Best guess for the unexpected deposit was to reduce the short position, but that has nothing to do with the short report due this Tuesday

The frantic and unique to silver physical turnover in place for more than 12 years in the COMEX warehouses has apparently spread to the silver ETFs. Yesterday, in addition to the 3.2 million oz deposit into SLV, there were redemptions of more than 2 million oz in other silver ETFs and when combined with yesterdayâ??s 1.5 million oz withdrawal from the COMEX warehouses, close to 7 million oz in total was turned over â?? quite a large amount for one day. Not all the ETF flows necessarily involve physical movement (as the COMEX stats do), but I suspect much does.

After dipping lower earlier in the week, as a result of yesterdayâ??s 3.2 million oz deposit in SLV brought the combined holdings in SLV and the COMEX warehouse totals to 716 million oz, where they were at last weekâ??s end. This is still lower than the 730 million oz recent previous low and down from 750 million oz at the start of the year. I still contend that due to investor holdings, these combined shouldnâ??t fall much further â?? before prices rocket higher.

Turning to yesterdayâ??s new COT reports for silver and gold, the results appeared to far different than I expected. Whereas I expected significant improvement in silver and to a lesser extent in gold, there was a slight deterioration in silver in terms of commercial selling (although the managed money traders were also net sellers â?? just not as much as expected). There was bigger commercial selling in gold, whereas I was expecting moderate buying. What went wrong?

It is said we learn more from our failures than we do from successes and two things accounted for my missed expectations this week. One, when I went back to review the results with the actual price action, I could see I was a bit sloppy in my original assessment in that I didnâ??t give proper weight to the deterioration that occurred in both gold, but particularly in silver on the first day of the four-day trading week, Wednesday, Aug 30.

That day silver surged as much as 60 cents to the highs of late-July and fell only 10 cents or so shy of establishing multi-month price highs and a potential major breakout. Therefore, there had to have been greater managed money buying and commercial selling than I allowed for. In addition, although prices fell from the highs of that day over the next couple of days, it wasnâ??t until the last trading day of the

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reporting week, Tuesday, Sep 5, that the fall was dramatic â?? and even then, did not penetrate the 50-day moving average. Similar conditions applied to gold. So, the first factor accounting for my wide miss was basic human (sloppy) error in considering the price action carefully enough.

The second factor didnâ??t involve human error, but something that couldnâ??t be foreseen, namely, the buyback of the big managed money short position, both in silver and gold. Remember, this big short position didnâ??t appear to be technically-oriented, at least in silver, and there was no way of predicting when it might be bought back and covered â?? just that it would be bought back and covered one day. From all the data in the report. It looks like the big managed money 7000-contract silver and the remaining 12,000-contract short position in gold were bought back and covered in the reporting week ended Tuesday. Thatâ??s the explanation for my wide miss.

In COMEX gold futures, the commercials increased their total net short position by a hefty 17,600 contracts to 158,200 contracts (although much of the increase is, effectively, related to the buyback of the 12,000-contract managed money short position). By commercial categories, the 4 big shorts increased their short position by 6200 contracts to 141,252 contracts (14.1 million oz). The biggest commercial category increase was in the big 5 thru 8 (again courtesy of the managed money short covering) with the new big 8 and pure commercial short position at 210,124 contracts (21 million oz). If my calculations are correct, the smaller commercials (the raptors) are net long just under 52,000 contracts.

On the buy side of gold, the managed money traders bought 11,123 net contracts, consisting of the sale and liquidation of 387 long contracts and the buyback and covering of 11,510 short contracts (which I contend includes the covering of the 12,000-contracts remaining of the big short position Iâ??ve written about the past few weeks). The resultant net managed money long position grew to 50,365 contracts (120,222 longs versus 69,857 shorts), still more bullish than bearish, but also allowing for short-term price weakness. Explaining the difference between what the commercials sold and the managed money traders bought was net buying by the other large reporting traders of 3600 contracts and buying by the smaller non-reporting traders of 2900 net contracts.

In COMEX silver futures, the commercials increased their total net short position by 1900 contracts to 37,700 contracts. As was the case in gold, the increase was due to the mathematical effect of the buyback of the 7000-contract big managed money position. There was only a slight increase in the big 4 short position to 36,431 contracts and the big 8 short position of 52,466 contracts, now back to a pure commercial position (as was the case in gold). These are still among the lowest concentrated commercial short positions on record.

Iâ??m guessing there was probably an increase in big 4 and 8 shorting on the first day of the trading week (when silver was threatening to break out), but that short position was trimmed as the reporting week wore on. If my calculations are correct, the raptors (the smaller commercials apart from the big 8) are now net long just under 15,000 contracts.

On the managed money side of silver, these traders were net sellers, as expected, just not to the extent fully-expected (due to the big managed money trader covering its short position). In fact, the managed money technical longs behaved as expected in selling off 5334 longs, but other managed money shorts bought back 2203 shorts, which limited the managed money selling to 3131 net contracts. However, if you adjust for what I claim to be the buyback of the 7000-contract big non-technical managed money short position, the remaining managed money shorts would have added

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around 5000 new shorts, and not bought back 2200 shorts as reported.

This is further borne out by the number of managed money long traders shrinking by 6 and by that same number increasing in the managed money short category. Generally, if there is decent managed money long liquidation due to falling prices, then it's reasonable to expect a similar increase in managed money shorting. I claim we would have seen that this week, had not the big managed money short trader decided to buy back that position. By the way, I don't think that trader did too well on this go-around as I believe this particular short position was bought back on the near-break rally day (although I can't prove it).

The resultant managed money net long position decreased modestly to 13,348 contracts (38,143 longs versus 24,795 shorts), but is no doubt much lower as a result of trading since the Tuesday cutoff. Based upon recent historical data, the bottom as far as the managed money gross long position gets as price bottoms is around 32,000 contracts and my hunch is that we may be there as of yesterday. The open question, therefore, is how many more managed money shorts can the commercials lure onto the short side by slicing the salami a bit more.

Explaining how the commercials and the managed money traders could both be net sellers this past reporting week was net buying by the other large reporting traders of 2800 contracts and additional net buying by the smaller non-reporting traders of another more than 2200 contracts.

So, if I haven't lost you with the details of why my COT expectations were wide of the mark, what does this all mean in terms of future price expectations? First, I believe we have already undone most or even all of the deterioration in the silver market structure over the past two reporting weeks in trading in the few days since the Tuesday cutoff.

Being so close to setting new price lows (we closed less than 5 cents above new lows in silver yesterday) and knowing how ruthless the commercials are when it comes to rigging prices lower so that they can buy, one can never declare the exact price bottom is in until after the fact. But we have to be close to exhausting complete managed money selling and in setting up an extremely important price bottom.

One thing I have noticed that really stands out to me is the degree of price violence present in silver, since I claimed a Code Red existed in silver around July 18. In the "whip it, whip it good" department (thanks Devo), I am amazed at how many times the commercials have whipped the managed money technical funds into and out from significant silver positions in such a short period of time and all by rigging prices first above all the key moving averages, then below those same moving averages, then back above all the moving averages and then this week, back below again.

In less than two months, the commercials have whipped the technical funds into and out from silver positions with a frequency I have never observed previously. Granted, much of the whipping may be related to the historical tightness that exists between the three key moving averages in silver, where only 54 cents separates the 50-day, 100-day and 200-day moving averages (and only \$43 in gold). This does make it easier for the collusive commercials to lead the silver managed money technical funds into and out from positions like a snake charmer or puppeteer. And it must be remembered that the commercials are systemically profiting from their puppeteering, while the managed money traders are taking it on the chin.

While I suppose the recent intense whipping of the managed money traders by the commercials can be attributed to just more of the same old wash, rinse and repeat intentional positioning cycle of the past 40 years, there is enough new evidence to convince me the game is about to change in a radical manner. Chief among the evidence is the now-undeniable evidence of a physical silver shortage – which appears to be intensifying on a daily basis since my Code Red warning back in July.

Not only is there no evidence of an increase in silver mine production, it has now been more than three months that one of the world's largest silver mines, Newmont's Pensaquito mine in Mexico has been shut down by a strike. Even if the strike ends tomorrow, some 8 million silver oz has been irretrievably lost, along with other disruptions (like at Hecla) and moribund world silver production for more than a decade.

On the demand side, a tip of the hat to those who pestered the US Mint to start obeying the law and produce more Silver Eagles as required. Last month, Silver Eagle production was almost 3 million oz, the highest since January and I'm hopeful the Mint will continue to produce Eagles as required. This should add one to two million oz monthly to the demand side of the equation and while not monumental, coupled with production interruptions, certainly doesn't take any pressure off the developing shortage.

What it comes down to is will they or won't they, with the actual specifics being will the big 4 and 8 shorts on the COMEX add aggressively to short positions on the next rally? It's a foregone conclusion that they won't someday, particularly as the physical shortage becomes more pronounced, so the real question is will they or won't they on the very next rally – which should commence whenever the collusive commercials have put the finishing touches and concluded the final act on their puppeteer show.

My bet, as I think you know, is that they won't add aggressively on the very next rally and I don't stand to lose much if I'm wrong. Should the next rally be aggressively sold short by the biggest commercials, then I'll have to scrape up additional premiums for even more Kamikaze calls. I've long-passed the point of even considering the sale of any existing silver positions given the extreme disconnect between where silver prices should be and where they are, so now it's just a game of waiting out the COMEX commercial crooks to see when they will give up suppressing prices.

I'm pretty sure, thanks to the law of supply and demand how this 40-year price manipulation and suppression will end and that's with a bang – not with any two steps up, one-step back orderly price advance to the prices that will increase silver production and limit demand – even if I can't know the precise timing beforehand. Needless to say, if you are in position to add to silver positions on a non-margined basis, now is a pretty good time to do so.

Ted Butler

September 9, 2023

Silver – \$23.20 – (200-day ma – \$23.51, 50-day ma – \$23.87, 100-day ma – \$24.05)

Gold – \$1943 – (200-day ma – \$1925, 50-day ma – \$1952, 100-day ma – \$1968)

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