

November 5, 2022 – Weekly Review

What a week for silver and gold! Prices were certainly volatile through Thursday, with silver quickly moving up and down a dollar over the first four days of the week and with gold prices also volatile and actually setting and closing at multi-year lows on Thursday. But a very sharp and high-volume rally on Friday put silver prices up by \$1.70 (8.9%) for the week, with gold prices up by \$37 (2.2%) for the week (and right at its 50-day moving average).

For silver, it was the highest weekly close in five months and for gold it was a one-month weekly closing high. Despite the sharp gains in silver, prices are still \$2.45 (10.5%) lower year-to-date, while gold is down by \$145 (7.9%) YTD.

Silver's sharp relative outperformance this week sent the silver/gold price ratio tumbling by five full points to 80.6 to 1, the tightest the ratio has been in seven months. In little more than three weeks, the silver/gold price ratio has strengthened in silver's favor by ten full points. While gold looks destined to climb much higher in price, the prospective gains in silver continue to look much larger.

Trying to look at things objectively, there was not much in terms of specific news that drove precious metals prices sharply higher yesterday. Some might point to US dollar weakness, but I'm still of the opinion that metals prices drive the dollar and not vice versa, with any debate taking on the substance of what came first – the chicken or the egg? To my mind, the driver of gold and silver prices is the same it has been for decades, namely, positioning of paper contracts on the COMEX – largely between the commercials (banks) and the managed money (technical fund) traders.

It's well-known and almost universally-reported that the managed money traders have held an unusually large number of COMEX gold and silver short contracts, always a prime ingredient for an explosive rally. In fact, there have been a good number of extremely well-written article about gold and especially silver, which make reference to the unusually large managed money short positions in COMEX gold and silver (along with the obvious developing physical tightness in each metal).

However, conspicuously missing from most of the otherwise well-written articles, is any attempt to explain how and why the managed money traders found themselves to be so heavily short silver and gold. Yet, this is precisely the key point. You either believe the managed money traders put on such large short positions, at exactly the same time that silver and gold actual supply/demand fundamentals were tighter and more bullish than at any time in history, by happenstance or there was some overriding force or factor luring the managed money traders to be so heavily short.

Not to be insulting, but believing the managed money traders got to be so heavily short at precisely the worst possible time/price ever is akin to a young child believing that the tooth fairy left (an inflation-adjusted) dollar for the missing tooth beneath the pillow. In time, all young children eventually come to learn there is no such thing as the tooth fairy, with no lasting harm to the child or society.

But that's not the case with continuing to believe that the managed money traders just happened to find themselves so heavily short in COMEX gold and silver at the worst time possible. That's because it's not a loving mother or father seeking to enhance a young child's belief in the tooth fairy or Santa Claus, knowing full-well it's just a part of growing up. Believing that the managed money traders just happened to innocently find themselves so heavily short COMEX gold and silver at the worst possible

time overlooks that the commercials are far from the equivalent of the tooth fairy or Santa Claus.

The COMEX commercials, mostly banks, are among the most conniving and ethics-free organizations of our time – as evidenced by the impossible to count number of fines and judgements rendered against them for cheating in COMEX dealings over the years and decades. How anyone can't see it was these same rotten commercials that tricked the managed money traders to get so heavily short in gold and silver by rigging prices lower in just the right manner to induce record short selling, so that the commercials could then buy those managed money short sales is beyond me.

Please don't misunderstand me, I don't give a hoot about the managed money traders – my concern is that what I just described is market manipulation pure and simple. That's something that should concern everyone, since it's the number one market crime and its consequences affect everyone. Besides, the ultimate proof that the managed money traders have always been hoodwinked when they get heavily short gold or silver is that they've never made a collective realized profit at such times – like now.

As has always been the case, the managed money traders always snatch defeat from the jaws of victory whenever they get heavily short. The rally yesterday erased every bit of the collective open profit the managed money shorts had in silver and the same result is about to occur in gold. In fact, this is one of the ultimate proofs that COMEX gold and silver is little more than a manipulative cesspool.

So, the only question around yesterday's sharp rally in silver and gold (and other metals like platinum and copper) is whether this is just another short-term rally designed to milk money from the managed money traders before the commercials rig prices lower to induce managed money selling at that time – or is it the start of the long-awaited big move to the upside? While that question will be answered in the relative near-term and only then will the answer be known to all, the only choice is how to play it. For me, it's easy – play it like it's the big one for the simple reason because if it is the big one, the only real decision is not to miss it after all these years and decades.

The fact is that gold and silver prices have been sitting on the launch pad for months, not dissimilar from the long-delayed launch of the Artemis/Moon Rocket, now scheduled to be launched Nov 14.

While the explanation for the Artemis launch resides in technical issues, I'm not sure why silver and gold prices haven't launched by now. According to what I believe matters most – COMEX market structure – silver and gold have been good to go since June or thereabouts, as that's when managed money shorting first hit extremely bullish levels. In the four or five months since June, it's been largely a game of the commercials toying with the managed money traders – forcing the managed money shorts to buy back at higher prices, only to see the commercials rig prices lower to induce renewed managed money shorting.

All the while, the drumbeat of physical tightness, particularly in silver grew louder. We've never had this specific set up before and I can only conclude yesterday's blast to the upside was just the start of what should be the "big one" and that it should be treated as such. Certainly, the news from the physical front in silver could hardly be more bullish. The amount of silver being imported into India is staggering, as this report indicates. Keep in mind the data for 2022 is only through August and preliminary reports for September indicate more than 50 million oz were imported over that month alone – suggesting more than 300 million oz for the full year or 35% of annual mine production.

<https://www.bnnbloomberg.ca/india-s-massive-silver-demand-cutting-world-s-warehouse-stocks-1.1841719>

In the “why didn’t I think of this sooner” department, it dawned on me that India has always been a net importer of silver and is extremely unlikely to ever be a net exporter. Silver and gold buyers in India are very price sensitive, with buying picking up when prices are perceived to be low, particularly when compared to one another, and this accounts for the surge in silver buying this year, as I believe I’ve noted recently.

But what dawned on me is that India’s massive population (1.4 billion) prefers its silver in the form of jewelry and ornaments. What this means is that when demand is high, like now, imports of 1000 oz bars explode and get broken down into the forms of jewelry and ornaments preferred by the average buyer. But when silver prices soar and Indian imports cool off, the silver in jewelry and ornaments are held and not remelted into 1000 oz bars for export. Just like the Eagles’ Hotel California (where you can check out but never leave) or a roach trap, the silver going to India is largely a one-way trip. I can’t believe I never realized this before.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained super-strong as more than 8.7 million oz (450 million oz annualized) were physically moved this week, as total inventories fell 0.8 million oz (a tenth of the actual movement) to 300.4 million oz, another three-year low. Total levels are important, but I still maintain the massive physical turnover – unprecedented among all commodities – is even more important and has been occurring for more than 11 straight years. Holdings in the JPMorgan COMEX silver warehouse fell 1.2 million oz to 154.7 million oz.

Holdings in the COMEX gold warehouses fell by a further 0.4 million oz to 24.6 million oz, another two-year low, while holdings in the JPM COMEX gold warehouse fell 0.2 million oz to 9.81 million oz.

Holdings in the world’s gold ETFs fell another million oz this week, mostly in GLD. There was more than a 5 million oz reduction in world silver ETFs, mostly SLV, that didn’t appear to be plain-vanilla investor liquidation, but shipments out to destinations more in need of the physical silver. There were sizable inflows into the PSLV, including a million oz inflow yesterday and that ETF is much more of a one-way trip given that Ottawa is not a traditional silver distribution location.

I ran across, by accident, something I found quite interesting concerning SLV, the big silver ETF. For a number of reasons, I realize many look down on SLV, mostly because JPMorgan is the custodian and BlackRock is the owner/sponsor. (In the interest of full disclosure, my wife still owns SLV and PSLV and it matters not to me what others hold). While I wasn’t looking for this, I ran across the appeal from the Silver Users Association to the Securities & Exchange Commission in early 2006 to not allow the proposed SLV launch to go forward.

I hope you know that the SUA was a corrupt organization, the only commodities user group of its kind, whose sole purpose was to try to keep the price of silver depressed – mostly by lobbying to get the US Government to dispose of its silver stockpile and on which it was spectacularly successful. I did petition the Justice Department back in the day to prosecute the SUA – to no avail. The good news is that the SUA is largely a thing of the past, as a result of the USG no longer having any silver left to sell. Anyway, the SUA’s petition to the SEC is fascinating because it recognized full-well the threat that the

SLV held for higher prices – which largely came to be realized. I just find it interesting that the truest enemy ever of higher silver prices, the SUA, took such pains to denigrate the launch of the SLV, which many silver proponents have also taken to disliking the SLV. I can understand the SUA's fear of the SLV, but not proponents for higher silver prices. Just sayin'

<https://www.sec.gov/rules/sro/amex/amex2005072/pamiller021306.pdf>

Finally, I have been remiss not to mention how my good friend, Carl Loeb, had, very early on, coined the term "Death Star" to describe SLV as destined to gobble up all the silver in the world in time. Subsequent events, including the introduction of competing silver ETFs, including PSLV, have proven the accuracy of Loeb's prediction as more than half of all the silver bullion in the world now resides in the silver ETFs.

Turning to yesterday's new Commitments of Traders (COT) report, even though I didn't publish comments on Wednesday (due to travel), any surprises in the report were minor and on the bullish side, particularly in silver. Of course, what likely transpired yesterday would seem to far outweigh the changes as of Tuesday. My biggest concern was that the rather large silver price surge on Tuesday (the cutoff day) would result in heavy managed money short covering, but the short covering was rather tame, which was a big relief.

In COMEX gold futures, the commercials further reduced their total net short position by 5400 contracts to 74,800 contracts. This was the third consecutive week of commercial short reduction and there was only one other week where the commercial short position was lower. Therefore, as of Tuesday and as of Thursday (when gold traded and closed at multi-year lows), the commercials were about the best positioned they could be for Friday's rally. Moreover, the biggest commercial shorts were active short coverers.

The combined (commercial plus managed money) short position for the 4 largest traders rose around 3800 contracts to 104,203 contracts (10.4 million oz), while the combined big 8 position grew by 3200 contracts to 172,425 contracts (17.2 million oz). But the commercial-only component of the big 4 fell to 57,000 contracts, while the big 8 commercial-only position fell to 112,000 contracts, both only a bit above the lowest levels in years and ultra-bullish on its face. This would put the gold raptors (the smaller commercials apart from the biggest commercials) at around 37,000 contracts net long, up by a couple of thousand for the reporting week.

On the managed money side of gold, these traders sold only 2613 net contracts, but the mix was ideal, since 6197 new longs were purchased and 8810 new shorts were added. The addition of longs doesn't matter much, certainly not compared to the number of new shorts added. The resultant net managed money short position of 41,401 contracts (78,213 longs versus 119,614 shorts) has only been slightly larger in one recent week and is ultra-bullish.

In COMEX silver futures, the commercials did increase their total net short positions by a light 1500 contracts to 10,400 contracts, but considering the rather sharp rally on Tuesday, it could have been a lot more and worse. The combined (commercial plus managed money) big 4 short position did increase by 900 contracts to 43,051 contracts (215 million oz), while the combined big 8 short position shrank by 200 contracts to 63,049 contracts (317 million oz).

At first, I was somewhat disappointed to see that the commercial-only big 4 short position grew by

2000 contracts to 30,000 contracts, while the big 8 commercial-only short position grew to 47,000 contracts, but after further thought, it didn't seem so bad. As I have been reporting, the raptors have been reluctant to sell out long positions because silver prices haven't risen enough for them to sell out at a profit. At least thorough Tuesday, this appears to still have been the case; which would necessitate new shorting by the former big commercial shorts in order to contain prices.

Admittedly, if the former big commercial silver shorts add as many or more new short silver positions (9000 contracts) as they did on the near \$3 rally at the end of Sep into early Oct, that wouldn't be encouraging – but the jury is still out on that verdict. The same goes for gold – where the former big 4 commercial shorts added more than 30,000 new shorts on the \$100 gold rally into early Oct, before rigging prices lower and rounding the managed money shorts back into the short fold.

On the managed money side of silver, these traders bought 2283 net contracts, consisting of the purchase of 597 new longs and the buyback and covering of (only) 1686 short contracts, much less than I feared. The resultant net managed money short position of 5435 contracts (36,025 longs versus 41,460 shorts) is still extremely bullish, as any managed money net short position would be.

As I indicated earlier, as of yesterday's close, any managed money collective profit on the short side of silver is now a thing of the past, as has always been the case. The same fate awaits the managed money traders short gold, when factoring in the whipsaws the commercials have subjected the managed money shorts to over the past few months. My best guess is that by the time gold hits its 50-day moving average (around \$1730), all managed money collective profits on the short side will be a thing of the past.

It's important to recognize that it's not just the fact that the managed money shorts have never collectively profited on a realized basis when heavily short COMEX silver and gold – it goes far beyond that. It's actually impossible for the managed money shorts to collectively realize profits whenever they get heavily short. Those are pretty strong words – let's see if I can back them up.

In order for the managed money traders to collectively buyback and close out big open and unrealized profits on the short side of COMEX silver and gold would require their trading counterparties, the collusive COMEX commercials to sell out longs and add sufficient numbers of new shorts at prices low enough to enable the managed money shorts to buy back and close out their own shorts at a profit. The chance of that occurring are about the same as me being on the new Artemis launch – aside from the fact that I'm not a woman or of color, nor am remotely qualified. The commercials don't collectively sell low – never have, never will – period. Therefore, there is no chance the managed money shorts can ever collectively profit when heavily short. End of discussion.

Back to the question of if yesterday marks the start of the big move higher. Perhaps the simplest answer is why not? Can the signs of physical tightness in silver possibly get much more obvious? Physical metal is spinning in and out from the COMEX warehouses and certain silver ETFs to an extent never witnessed and silver is flowing into India at such a pace that requires air transport as shipments by sea are not fast enough. Ask the question as to who in their right mind would legitimately short silver right now and please get back to me if you can come up with an answer.

Then there's the matter of missing/negligent regulation. The primary commodities regulator, the CFTC, best I can tell, was notified and questioned by many to explain why silver's obvious supply/demand fundamentals are so completely out of whack with the prices set on the COMEX. In the old days, it

used to explain how there was a surplus in silver, not something possible today. Even the US Mint is starting to back peddle on its decision to curtail Silver Eagle production, based upon recent comments.

Of course, it comes down to what the former big COMEX commercial shorts will or won't do when it comes adding new short sales to cap and contain prices. There's never been a question that if they don't add aggressively to new shorts that prices will fly. The only reason prices haven't exploded to date is that the big shorts always did add aggressively to new shorts. But this crooked game is long of tooth and what must eventually occur will occur – even if not at the time table we construct. And while I don't prefer to place great stock in any one day's changes in total open interest, particularly on a preliminary basis, yesterday's preliminary open interest in both gold and silver were quite encouraging in that big increases weren't reported – suggestive of no big new commercial short selling.

A few years ago, after the passing of my dear friend and silver mentor, Izzy Friedman, one of his heirs contacted me about what to do with the silver Izzy had accumulated over the years. There was specific disappointment that the Silver Eagles accumulated weren't trading at much of a premium at the time, since the prediction of big premiums to come was uniquely a prophecy of Izzy – as far as I know, alone of all the many billions of people in the world. My point is that things will unfold when they unfold, not necessarily on our own timeline. That said, now sure feels like the time for the silver move to unfold.

Ted Butler

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Silver – \$20.90 (200 day ma – \$21.57, 50 day ma – \$19.14, 100 day ma – \$19.48)

Gold – \$1685 (200 day ma – \$1810, 50 day ma – \$1684, 100 day ma -\$1729)

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