



## Who Is Buying Silver: The Comex September Shorts

The rise in silver prices from \$16.41 on 31 July to \$18.475 at one point this morning (basis the September Comex silver futures contract) has been due to short covering in the September Comex silver futures contract, and not investment demand.

Investment demand has been very low during this time, as the table here shows. Meanwhile, there has been a tremendous amount of silver short positions bought back on the NY Comex — 558.4 million ounces, or 558 times more than U.S. Silver Eagle sales during this time.

The shorts are rolling out of their September positions into December positions. **This is what is pushing prices higher.**

**There are still 226.5 million ounces of September open interest to be rolled forward, and two trading days before the September contract becomes deliverable. So, the upward pressure on silver prices should last another two days.**

**Then, the silver price should be expected to fall dramatically once the September roll is over.**

The same dynamics were at work in April 2011, when silver went from \$37 at the start of April to \$49.19 at the end of the month. Silver marketing groups became wildly bullish. CPM issued a sell recommendation at \$49, saying the increase was entirely due to short covering in the May Comex contract, with very low purchases of silver coins and investor sales of ETFs. Prices plunged to around \$32 within the first week of April to \$33.04 by that Friday, once the roll out of April shorts was over.

**It's April 2011 all over again.**

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		<u>Net Buying in August To Date</u>
Comex Sept Open Interest		<b>558,395,000</b>
31 July	784,885,000	
27 Aug	226,490,000	
SLV		<b>28,725,480</b>
31 July	356,715,500	
27 Aug	385,440,980	
US Silver Eagle sales		<b>1,007,000</b>
August to date	1,007,000	

**A few additional points should be made.**

1. Where did these enormous short positions come from? They were built up starting in 2015 and 2016 as investors stopped buying so much silver and started selling silver. With the silver market thus 'well supplied' (meaning, oversupplied), much of this metal wound up being bought by market makers who could not find ready buyers of physical metal. As a result the market makers wound up owning and holding the physical silver... and hedging their long physical positions with Comex futures and options. That is what market makers do.

2. Because these short positions on the Comex are hedges of long physical positions, the shorts are not being hurt by the rise in prices. In fact, they are making more money because of the higher price. On a simplistic basis, any 'losses' on the Comex short positions are offset by similarly sized 'gains' on the physical holdings, meaning that on this level the market makers holding and rolling the shorts forward are price neutral.

3. In fact, they benefit from the higher price. Many of these market makers are banks and trading companies that lease metal out to producers during the smelting and refining period, smelters and refiners, semi-fabricators, manufacturers who use silver, and others. As the price of the silver they are leasing rises the amount of interest they are paid on these leases increase. Let's say a lease is at 3%: 3% of \$18 is 20% more revenue than 3% at \$15.

4. Short term price moves, such as we have seen over the past few weeks, are heavily influenced by trading patterns in futures, forwards, and options. Long term price trends are determined primarily by the fundamentals of silver supply, fabrication demand, investment demand, and inventories.

5. The shorts were built up as investors were buying less silver, and selling some on a gross basis, over the past few years. This period of weak investor demand continues at present.

**Weak investment demand created the short positions on the Comex, and weak investment demand suggests that prices will not continue to rise.**

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