Comex Inventories Plummet - Is A 'Vault-Run' Underway?

Source: SchiffGold

Summary
While Comex deliveries have been very elevated for over two years, most of the metal was going back and forth within the Comex vaults.

The past few months have seen a major acceleration of gold leaving the Comex.

Unlike gold, silver has not yet started leaving the Comex system in droves, but the amount of Registered has fallen off a cliff.

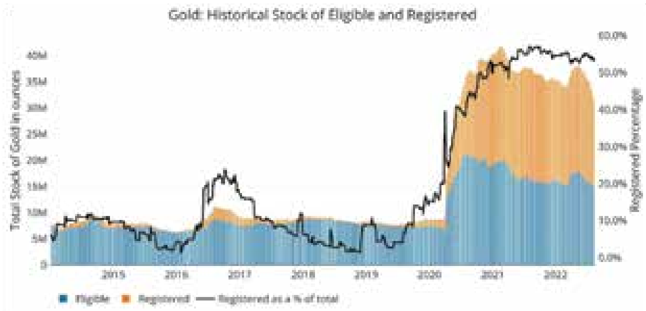
Gold and silver deliveries on the Comex have surged since March 2020. While delivery volume in 2021 and 2022 are below the massive amount seen in 2020, overall volume is very elevated compared to pre-COVID levels.

This analysis focuses on gold and silver within the Comex/CME futures exchange. The charts and tables below specifically analyze the physical stock/inventory data at the Comex to show the physical movement of metal into and out of Comex vaults.

Current Trends
While Comex deliveries have been very elevated for over two years, most of the metal was going back and forth within the Comex vaults. There was not a major extraction of metal. In fact, at the beginning of COVID, a dislocation in the market brought a massive surge of inventory into Comex gold vaults (see figure below), even while delivery volume was breaking records.

In 2021, gold did start physically moving out of the vault, albeit from much higher stock levels. After a decent amount was extracted, there was then an inventory surge during the Ukraine/Russia crisis to replenish stock.

However, that surge has been completely undone and inventories are now well below where they were before May, though well above pre-COVID levels. Since May 2022, total inventories are down 17.7% and down 24.9% since February 2021. The past few months have seen a major acceleration of gold leaving the Comex. This is shown below with the big spike down on the right side.



Silver is also seeing a major change in inventory. Unlike gold, the metal has not yet started leaving the Comex system in droves, but the amount of Registered has fallen off a cliff (Registered is metal available for delivery). Silver Registered is down 41% since March 15, 2022, and down 65.7% since Feb 4, 2021, which was the start of the Reddit Silver Squeeze last year.

This is a massive drawdown in metal available for delivery. For now, the metal is staying in the Comex vaults, but if gold is a leading indicator, metal might start leaving Eligible in a big way. As can be seen below, the amount of Registered has fallen to 16.6%, down from 40% in 2020. This is the lowest ratio since June 2017.

Gold

Zooming in on the month-over-month change shows the acceleration in metal leaving the vault. 3.7M ounces were added in March and April. Since then, 6.6M ounces have left the Comex system. Current outflows have exceeded the outflows during the height of the squeeze in 2021.

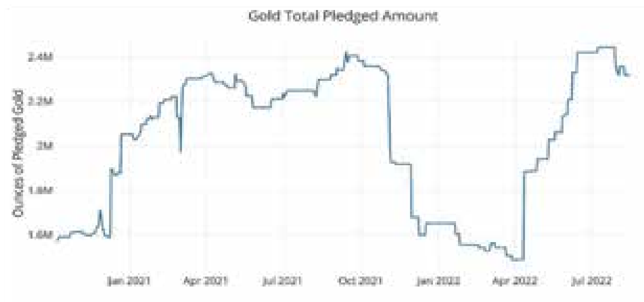
The daily activity since the last stock report shows a very steady outflow of metal from both Registered and Eligible. This has not been one or two days of big outflows; it has been a relentless removal day after day. Last Friday was the only day of net inflows over the last month.

Silver

Again, the action in silver is a bit more nuanced. Investors are taking delivery and then moving registered metal to Eligible. They are taking it out of the available supply for delivery but are still keeping it in the Comex system. If the current pace keeps up, eventually that silver will start to leave the system.

The daily activity is a bit more erratic in silver than in gold. July saw a very continuous outflow of Registered, but since August started the outflows have been in Eligible with Registered remaining fairly flat.

Pledged gold (a subset of Registered) has come down some after setting a new record back in July. Pledged is Registered but not available for delivery, which means gold has lost an additional 900K ounces of available delivery supply since March when you include Registered.



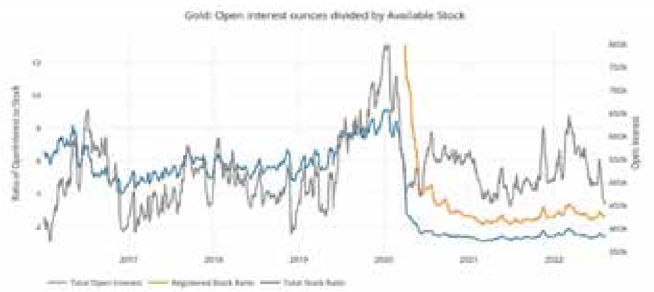
Gold entered backwardation last month for three consecutive weeks until the August contract was replaced with the December contract. It has now entered the strongest contango since September 2020. In 2021, the conversion from August to December resulted in a spread increase less than $1. In 2022, that same contract conversion flipped the price almost $20!

While gold is back in contango, silver remains in heavy backwardation. This is the longest such period of continual weekly backwardation since 2013

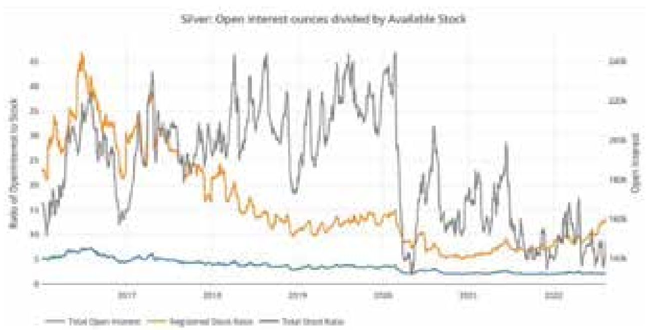
Historical Perspective

Available supply for potential demand

As can be seen in the chart below, the ratio of open interest to total stock has fallen from over 8 to 1.45. In terms of Registered (available for delivery against open interest), the ratio collapsed from nose bleed levels (think Nov 2019 where 100% stood for delivery) down to 2.7 in the latest month. The recent fall in the ratio is from open interest falling faster than the physical supply. This is not unexpected though; it is much easier for the paper supply to fluctuate compared to the physical supply.



Coverage in silver is weaker than in gold with 13.45 open interest contracts to each available physical supply of Registered (up from 8.2 at the end of April). The ratio has been driven up by a recent increase in open interest, along with the continued movement out of Registered.



Wrapping Up

Comex deliveries should not be confused with load-outs where metal actually leaves the vaults. For perspective, the August gold contract has seen 3.25M ounces of gold delivered. Ironically, this is close to the 3M ounces that have left the vault over the last month. Over time, the divergence is greater with 17.2M ounces being delivered since December and only 4.2M ounces leaving the vault during the same period.

That being said, the increased delivery volume over the last 2+ years has translated to a lot more metal leaving the Comex. While Delivery volume is still close to near-term averages, the amount of gold leaving vaults has accelerated rapidly in recent weeks. With total gold inventories down almost 20% since May, this could be the early stages of a bank run, or in this case, a “vault-run”.

If someone were to describe the early stages of a collapse in Comex confidence, it would look exactly like this. A few years of elevated deliveries back and forth sloshing around. Metal starts leaving the vault slowly but steadily. Inventories get thin, and the banks restock but not enough. Then a little more fear sets in and the exodus accelerates.

Everyone knows there is more paper gold than physical gold, but most traders are fine with this as long as they can get the USD exposure to the gold they want through margins and futures. However, there is clearly a second set of actors in the market who are not after highly leveraged bets on short-term future gold prices. These actors understand the value of gold and silver as the true wealth and currency of the world. The data shows that these investors may be losing confidence in the system and are extracting their metal while they still can.

As paper trading continues, the price of gold and silver remains suppressed in a fractional reserve system. With an infinite supply of paper shorts available, true price discovery is much harder. The real investors are taking advantage of the artificial suppression in prices, and cashing in their paper for metal.

Regulatory News

Premature redemption under Gold Monetisation Scheme payable only in rupees: RBI

The Reserve Bank said premature redemption under the Gold Monetisation Scheme will be payable in rupees, while on maturity the depositor may choose to opt for physical gold. The Gold Monetisation Scheme (GMS) was launched in November 2015 with an aim to mobilise gold held by households and institutions and facilitate its use for productive purposes, and in the long run, reduce the countries on imports of the yellow metal.

"The redemption of principal at maturity shall, at the option of the depositor, be either in Indian Rupee equivalent of the value of deposited gold at the time of redemption, or in gold," said an RBI circular modifying the scheme.

However, any premature redemption of Medium and Long Term Government Deposit (MLTGD) would be only in Indian rupee, it added.

As per the scheme, the Medium Term Government Deposit (MTGD) can be made for 5-7 years and Long Term Government Deposit (LTGD) for 12-15 years or for such a period as may be decided by the Centre from time to time. The circular further said banks should seek the option of collecting maturing proceeds in gold or in Indian Rupee equivalent from the depositor at the time of initial deposit.

The GMS is implemented through banks.

Source: https://economictimes.indiatimes.com

Jewellery News

India Gold Jewellery Exports Recorded Upward Trend

According to the Gems and Jewellery Export Promotion Council (GJEPC), the exports of plain gold jewellery gained traction in India ever since the India-UAE Comprehensive Economic Partnership Agreement (CEPA) came into force in May 2022.

The gross export of plain gold jewellery were valued at $325.59 million in July this year, compared with $280.02 million recorded in the same month a year before. Meantime, the overall gem and jewellery exports witnessed a marginal dip by 7.28% in dollar terms to $3,129.91 million.

For the period from April to July 2022, provisional gross export of plain gold jewellery recorded growth of 22.98% in dollar terms to $1,321.68 million. This compares with $1,074.67 million for the same period in 2021. The overall gross exports witnessed a growth of 5.63% from $12,655.55 million in April-July'21 to $13,367.91 million in the same period this year.

Colin Shah, Chairman, GJEPC noted that it hoped to see successful completion of similar free trade agreements (FTAs) with the UK and Canada soon, which in turn will further boost gold jewellery exports from India. The next few months will be a crucial period for exporters, he added.

Source: https://www.scrapmonster.com

BIS: Gold Jewellery Hallmarking Recorded Notable Surge

The Bureau of Indian Standards (BIS) announced that the mandatory hallmarking requirement which came into force in mid-June this year has witnessed huge success. There has been a notable surge in the volume of hallmarked jewellery items, it said.

Around 3.7 crore jewellery articles were hallmarked during the initial quarter (April-June ’22) of the current fiscal year. Also, nearly 8.68 crore jewellery articles were hallmarked in the previous fiscal year ended 30th March, 2022. The statement further noted that the number of BIS registered jewellers have surged higher significantly from 43,153 in July last year to as many as 1.43 lakhs in August this year. Over the same period, the count of BIS-recognized Assaying and Hallmarking Centres have increased from 948 to 1,201.

The first phase of mandatory hallmarking had covered 14 carat, 18 carat and 22 carat gold jewellery articles. The second phase covered additional cartages-20carat, 23 carat and 24 carat. Also, it covered more number of districts. Several more districts would be covered under the mandatory gold hallmarking order in future.

The mandatory hallmarking ensures purity of gold purchased by customers. It also offers them higher resale or exchange value for gold jewellery and artefacts.

Source: https://www.scrapmonster.com

ETF News

Gold ETFs Log Rs 457 Crore Outflow in July

Gold Exchange Traded Funds (ETFs) witnessed a net outflow of Rs 457 crore in July as investors parked their money in other asset classes as part of their portfolio rebalancing strategy. This was in comparison to a net inflow of Rs 135 crore in June, data with the Association of Mutual Funds in India (Amfi) showed.

Kavitha Krishnan, Senior Analyst Manager Research at Morningstar India, said that significant outflows seem to have risen out of investors’ expectations of a rising interest rate cycle leading to a fall in gold prices, thus impacting the net flows into the gold ETFs. Also, a falling rupee is another factor that has likely impacted the demand and supply dynamics of gold. This trend has been witnessed globally too, with gold ETF’s posting significant outflows on the back of lower gold prices, she added.

“This outflow could be directed toward money being diverted from gold to other asset classes as a part of a portfolio rebalancing strategy," Priti Rathi Gupta, Founder of LXME, said. The outflow has pulled down the asset under management of the category to Rs 20,038 crore last month from Rs 20,249 crore in June.

However, the category saw a slight increase in the number of folios by over 37,500 to 46.43 lakh during the period under review. This suggests that investors are likely continuing to invest in gold ETF’s as a means to diversify their portfolio and hold the financial instruments a hedge against market risks, Krishnan said.

So far in the current fiscal (till July) 2022-23, the segment attracted Rs 982 crore. Gold ETF, which aims to track the domestic physical gold price, are passive investment instruments that are based on gold prices and invest in gold bullion.

In short, gold ETFs are units representing physical gold which may be in paper or dematerialised form. One gold ETF unit is equal to 1 gram of gold and is backed by physical gold of very high purity. They combine the flexibility of stock investment and the simplicity of gold investments.

Source: https://www.news18.com