April 17, 2024 – The Biggest Loser

I have tried to stick to the facts that can be substantiated when it comes to the developing financial circumstances as a result of the recent sharp price gains in gold and silver. First and foremost, among those financial results have been the easy-to-calculate total gains and losses to those holding net long and short positions in COMEX gold and silver futures contracts. The formula for determining these total gains and losses is straightforward. Â Since it is relatively easy to get the net long and short positions on futures contracts (simply subtract total spread positions from total open interest), the only other calculation is to then multiply the net long and short position (which have to be the same by derivatives definition) by the change in price over any stipulated time period.

I have chosen the gold and silver price change from Feb 27 to the present, which as of last nightâ??s close comes to $360 in gold and $5.80 in silver. Multiplying those price changes by the average net long and short positions in COMEX gold and silver futures over that time (43 million oz in gold and 730 million oz in silver), the total dollar gain/loss to the longs and shorts comes to $15.5 billion in gold and $4.2 billion in silver â?? a total of $19.7 billion. This is the largest such total COMEX open gain/loss in the shortest period of time in history and does not include the gains or losses in COMEX gold and silver call options contracts, which promise to be many billions of dollars more.

As I have previously concluded, such massive open gains and losses, being unprecedented, have had to involve serious damage to any number of those on the short side, as all the shorts have had to post additional margin equal to the amount of the open losses over this time. Now, if the shorts are able to turn the tide of prices lower, then they should see significant financial relief and perhaps be able to buy back many of their existing short positions. Of course, there is no guarantee the shorts will be successful (although they always have succeeded to a large extent in the past).

One of the peculiarities of the data just discussed, which comes from the weekly Commitments of Traders (COT) report, is that while one can easily calculate the total long and short positions and resulting financial performance over any specific period of time, those open profits and losses can only be calculated on a total trader basis, with no ability to zero in on the profits and losses of individual traders (save for the concentrated positions of the big 4 and 8 traders). But even there, no individual identities of specific traders are revealed, due to commodity law shielding the identity of individual traders. You could call this a â??flawâ?• in the COT report, as it would make it easier if the identities of the largest traders were revealed, but it is something we must live with.

In contrast, the Office of the Comptroller of the Currencyâ??s Quarterly OTC Derivatives report, which covers the Over-the-Counter derivatives positions of the US banks, actually identifies the big US banks holding OTC precious metals positions. But unlike the COT report, the OCC report doesnâ??t provide a detailed breakdown of the actual gold and silver positions, even to the point of whether any of the banks are net long or short. About the only thing the OCC report is good for is pinpointing those US banks with big OTC precious metals derivatives positions. Essentially, there are only three big banks which comprise about 95% of the total US bank precious metals derivatives holders â?? JPMorgan, Citibank and Bank of America (in that order). Â Thankfully, between the two reports, the OCC and COT reports, I have been able to extract enough clarity so as to be meaningful.

For many years, the only two banks that mattered in the precious metals category was JPM and Citi, but about three years ago, Bank of America burst onto the scene, as a giant participant in both silver and gold, although back then, gold was excluded from the precious metals category and included in the Forex category, in an attempt by the OCC in 2016 to make opaque the gold holdings of the US banks. But in doing so, the OCC unintentionally made quite transparent the silver holdings of the banks, particularly the new comer, Bank of America when it came along after 2020. Making a long story short (no pun intended), it quickly became clear that BoA had established an OTC short derivatives position on silver in excess of one billion oz (mostly as a result of lease/short sale arrangement with JPMorgan). The position was so large and egregious that I wrote to the OCC (and other regulators) through my congressmanâ??s office and the OCC replied, but neither confirmed nor denied my allegation that this was an extremely dangerous position for BofA, but did agree that it was a very serious matter.

Months later, in a move I believe was intended to obfuscate the matter even further, the OCC changed its categorization of gold in its derivatives report back to the precious metals category from the Forex category, in an attempt to make BofAâ??s big short silver position opaquer and more difficult or impossible to decipher. Once again, the move backfired, as all the category change accomplished was making clearer what BofAâ??s gold position was, since being included in the Forex category made it impossible to break out what BofA held in gold derivatives. This change made it clear that in addition to uncovering that BofA held a billion oz short silver position, it also held a 25 million oz short position in gold (also as a result of a lease/short sale with JPM).

Because the price of gold and, particularly silver, has been relatively flat for the past three years or so, with gold averaging not much higher than the $1800 level that I would estimate that is Bank of Americaâ??s average sale price, along with $23 in silver, BofAâ??s 25 million oz gold short position and billion oz silver short position hasnâ??t amounted to much of a financial consequence to BofA. Of course, that has changed dramatically over the past less than two months. From Feb 27 to last nightâ??s close, the open losses to Bank of America on its 25 million oz gold and billion oz silver OTC short position have grown to more than $20 billion ($15 billion in gold and $5 billion in silver). Please remember, despite the similarity in the size of both losses, this open loss to Bank of America on its OTC gold and silver short positions is completely separate and distinct from the near-$20 billion open loss on the COMEX in total gold and silver futures â?? although both losses are directly due to the run up in gold and silver prices over the past 7 weeks or so.

What prompted this renewed focus on Bank of America (aside from the recent run up in gold and silver prices) was the occasion of BofAâ??s quarterly earnings report this week. From what I can tell, BofAâ??s earnings were close to previous estimates, but a key feature of the report was the now close attention paid to its update on open losses on its portfolio of underwater bond holdings that it had acquired at close to the bottom of interest rates a couple of years ago. More than any other bank, Bank of America went overboard on its ill-timed buying of long-term bonds and as a result has far larger open, marked-to-market losses than any other bank â?? with its open losses growing to $109 billion, as of March 29 (from $99 billion at year end). Since bond prices have dropped since the end of March, the losses would even be greater were they calculated today.

I raise the issue of the open bond losses to Bank of America for two reasons. One, BofA cannot be considered the sharpest knife in the drawer to have attained the unwelcome distinction as the bank holding the largest amount of underwater bonds. I canâ??t help but feel the bone-headed move by BofA in bonds is very much in keeping with me going out of my way to label this bank as being as dumb as a bag of rocks for having ended up short a massive amount of gold and silver â?? particularly since it had no known history of proprietary trading in gold and silver. Two, the underwater bonds held by BofA are now universally known by all. Even though the open losses on precious metals derivatives held by BofA are much less than the bond losses, the precious metals losses are not minor by any means and can grow meaningfully from here on higher prices. The key point here is that the bond losses are known by all, while the precious metals losses are universally unknown by the financial community. This raises the prospect that someday, BofAâ??s precious metals derivatives might come into greater recognition.

Again, I canâ??t help but feel that the growing losses to the shorts in both COMEX and OTC dealings have had to have a big effect under the surface on the recent price rise and is still very much in play. I also have to wonder how long before we get word of specific casualties and what effect that might have on prices.

Just yesterday, I received an email from a subscriber who asked me to clarify an issue that has arisen, quite literally, for my entire near-40-year experience in trying to expose the scam of manipulative short selling on the COMEX. Brian asked if there was any credibility to a claim he received that the short position, held largely by the commercials on the COMEX were somehow fully-hedged with offsetting long positions in London. This is a well-worn attempt at dismissing the COMEX short position as meaningless and not to be taken seriously. Itâ??s one of those things that sounds half-plausible at first blush, until you think about it a bit. At that point, it becomes preposterous and absurd.

Thatâ??s because, if the COMEX shorts were fully-hedged by long positions in London (or elsewhere), that would mean there would have to be a whole separate set of traders in London who have gone massively short in order to enable the COMEX commercials to get long (since there must be a long for every short and vice versa). What makes this thought absurd and preposterous is that the only conceivable set of traders able to short to the commercials in London (or elsewhere) are the managed money hedge funds and other speculators long on the COMEX. So, in order to accept the silly notion that everybody is hedging all their positions to the point that no one holds true net long and short positions you have to enter a world of make-believe. The thought that we live in a financial world where everyone has hedged every possible profit (and loss) is absurd to the extreme.

In other developments, import/export data from India that has proven to be reliable indicated that more than 30 million oz of silver were imported into that country in March. This follows silver imports of 75 million oz in February. It was expected that the silver imports in March would decline sharply, but the fact is that Marchâ??s imports are shockingly high. Over the past two months, some 108 million oz of silver have been imported into India, or more than 75% of all the silver mined in the world over that time. How is this possible? The only way this is possible is due to silver being scrounged from every nick and corner of the globe to meet the increasingly obvious physical silver shortage. The real wonder is that silver prices are still strongly contained by the forces of illegal manipulation on the COMEX. These illegal price forces still may continue to prolong the silver price suppression and may, in fact, still result in a selloff, but in time this COMEX silver price manipulation must fail spectacularly â?? itâ??s just a matter of time.

The Silver Institute just released its World Silver Survey for 2024 and, for yet another year, has indicated a continuing structural physical shortage â?? or more current demand than supply. As has been the case for several years running, the structural deficit has had remarkably little impact on the price of silver, with recent price increases having little to do with anything the Silver Institute has to say about silver. Much continues to be debated about certain aspects of the World Silver Survey, particularly about demand for silver in photovoltaic solar panel production being understated, but no one would argue that actual silver demand is not sufficient enough to drive prices higher. And if the Silver Institute did show much higher demand for silver in solar panels, I doubt that would, by itself, cause silver prices to soar. The obvious takeaway is that something is suppressing the price of silver and if it isnâ??t paper manipulation on the COMEX, then I donâ??t know what the alternative explanation might be.

https://www.silverinstitute.org/silver-industrial-demand-rose-11-percent-to-post-a-new-record-in-2023/

With yesterdayâ??s close to the reporting week, the new COT report on Friday will mark the seventh such report since gold and silver prices rallied strongly since Feb 27. Over most of this time, while I have expected deterioration (managed money buying and commercial selling) on the 7-reporting week price rally of more than $360 in gold and $5.80 in silver (how could there not be market structure deterioration?), I have gone into each report leaving open the question of the detailed category changes under the hood â?? which has proven to be the Â correct approach, at least in silver. And through last weekâ??s report, the standout feature has been a notable overall increase in managed money buying and commercial selling in both gold and silver. This weekâ??s report on Friday looks even harder to handicap, given the extreme choppiness to the price action, particularly last Friday.

In gold since Feb 27, the managed money traders bought around 80,000 net contracts (both new longs and the buyback of shorts) or 8 million oz, while the commercials have sold around 66,000 net gold contracts (the other large reporting traders account for the difference). Overall, I would have thought there would have been even greater managed money buying and commercial selling than seen, considering just how large was the gold price move over this time. In terms of commercial category selling, the big 4 accounted for 40,000 contracts of the 66,000 contracts of total commercial selling and the big 5 thru 8 accounted for an additional nearly 10,000 new shorts and with the raptors selling off nearly 16,000 contracts of long positions. While the total amount of commercial selling didnâ??t look particularly large considering the large rise in price, I suppose I would have preferred less in terms of big 4 shorting in a perfect world.

In silver since Feb 27, the managed money traders bought just over 40,000 net contracts or more than 200 million oz, while the commercials were net sellers of nearly as much, with 39,000 net contracts sold through last weekâ??s COT report. However, the big difference between gold and silver came in the commercial category breakdowns. Whereas the big 4 were the big sellers in gold (from a much-reduced short position originally), in silver the big 4 added only 2000 new shorts from Feb 27, with the big 5 thru 8 adding around 4500 new shorts and the raptors accounting for more than 32,500 contracts of silver selling or 83% of the total commercial selling (both long liquidation and new short selling). The extremely low level of big 4 shorting is nothing less than shocking for a number of reasons.

For one thing, itâ??s quite unusual not to see more big 4 shorting than exhibited to date, considering the extent of the silver rally to this point. In fact, I canâ??t recall a previous rally carrying as far as this rally has carried with such little big 4 selling as currently. I suppose a plausible case could be made that the lack of big 4 selling is perhaps a big reason the silver rally has been as strong as it has been. Of course, the new COT report might suggest otherwise.

By far, the most important aspect to the lack of big 4 shorting to this point is how critical a role this concept has played in my basic analysis of the silver market and the ongoing COMEX price manipulation for nearly 40 years. Not only have I persisted that the big 4 concentrated short position is at the heart of the COMEX price manipulation, I am dumbfounded how so few have come to recognize the manipulative role of the 4 big short traders in COMEX silver futures. Quite literally, it is the whole game â?? the big enchilada. Without the big 4, there could be no manipulation possible in COMEX silver, as in any manipulation, there has to be core group of one or a very few traders responsible for the manipulation. Thatâ??s the promise of the big 4 not shorting aggressively on higher prices â?? it suggests the manipulation is dying.

About three years ago, I wrote to the chair of the CFTC (through my congressman) about the excessively large concentrated short position of the 4 largest shorts in COMEX silver futures on Feb 2, 2021, when silver prices peaked and the big 4 short position also peaked at more than 65,000 contracts. This was at the peak of the silver short squeeze movement. The response I received a couple of months later indicated the Commission would look into it and referred the matter to its Divisions of Enforcement and Market Oversight. While I continued to remain suspicious about the intentions of the agency in enforcing the law in silver, to this day, the big 4 short position has never grown larger than the 65,000 contracts it was on Feb 2, 2021 and even today is still more than 20,000 contracts (100 million oz) less than it was then. Since the big 4 hold a substantially lower concentrated short position than they did on Feb 2, 2021 and for any time since, the natural question is why? More specifically, is it due to the CFTC or DOJ jawboning the big shorts, or is it due to another reason, like the big 4 choosing not to be short as a matter of self-interest (as in who wants to be short in a market destined to rise)? Whatever it may be, I canâ??t help but conclude the lack of big 4 shorting is part and parcel with the price rise to date and in the future.

The jury is still out on whether the shorts will be able to rig a sharp selloff or not, but my sense is that the jury wonâ??t be out for much longer

Ted Butler

April 17, 2024

Silver – $28.50 Â Â Â Â (200-day ma – $23.79, 50-day ma – $24.67, 100-day ma – $24.20)

Gold – $2392 Â Â Â Â Â Â (200-day ma – $2024, 50-day ma – $2163, 100-day ma – $2101)

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