

August 1, 2020 – Weekly Review

Gold and silver prices surged to new weekly highs, all-time in the case of gold and seven year highs in silver. Gold ended the week up \$72 (3.8%), while silver finished \$1.65 (7.2%) higher. As a result of silver's relative outperformance (which should be a surprise to no one), the silver/gold price ratio closed nearly three points tighter for the week, at just over 80 to 1. The ratio is now down 45 points from the absurd and manipulated level of mid-March, and is now even lower than where it began before the spike higher. Yes, I still believe silver is epically undervalued relative to gold.

With first delivery day on the big August COMEX gold having arrived, the new price reference for gold has switched to the December contract, which automatically adds around \$23 to the price, not something well-advertised in TV or chart reporting services. So if you thought gold was suddenly priced even higher than you had imagined, you hadn't missed anything except the roll to December.

The highlights for the week did include details about the big first day deliveries on the August gold contract, but that was overshadowed by the shockingly bullish COT report of yesterday. In fact, the report was so bullish that at first I thought it might be a mistake, but further investigation suggests no errors (he said guardedly). I'll have details on both the big gold deliveries and the COT report in a moment.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained white-hot, as more than 13.6 million oz were moved and total inventories rose a strong 5 million oz to 334.5 million oz, another new all-time record. There was a slight increase of 0.6 million oz (one truckload) into the JPMorgan COMEX silver warehouse, also now at a new record.

I'm starting to become more convinced that silver is being brought into the COMEX warehouses for future delivery as a means for the big concentrated shorts to close out some of their short positions – the same thing that has been occurring in gold these past several months. It's kind of funny, for years, many observers interpreted growing silver and gold inventories in the COMEX warehouses as bearish and indicating oversupply and now we have record inventories in both metals and prices are screaming higher. Go figure.

There were continued deposits in the COMEX gold warehouses this week, as 1.6 million oz were added, bringing total gold inventories to a record 36.6 million oz (up more than 28 million oz since March). There was a slight 160,000 oz added to the JPM COMEX gold warehouses, bringing the total there to 13.76 million oz, also a record. Speaking of funny, for many years, some observers pointed to the apparent inadequacy of physical gold inventories in the COMEX warehouses to satisfy delivery demands. Now, we have record deliveries, but at the same time those deliveries are dwarfed by the record amount of gold in the COMEX warehouses.

As expected, there were very heavy deliveries on yesterday's first notice day for the August COMEX gold futures contract of 32,732 contracts (3.27 million oz). This was a new first day record, exceeding the previous record of 28,375 contracts on the first day of the June contract. And with around 12,500 contracts remaining open in the August contract and with the newly developed pattern of more new contracts being added as the delivery month progresses, it would seem likely that the

record full month of gold deliveries in June (55,102) might be broken.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

The record large number of COMEX gold deliveries has, as would be expected, attracted all sorts of commentary, not all of which have been accurate. This is, admittedly, a complicated matter, so I thought I might try to shed some light on it. But don't be put off if it sounds like inside baseball type stuff, because that's largely what it is.

Because all futures contracts are derivatives, meaning there must be a long for every short, all contracts that end in actual physical delivery (which is what we're talking about here) also have two sides – the party that puts out or issues the physical gold and the party that accepts or stops the physical gold. Since deliveries involve two separate parties, one issuing and one stopping, it would be wrong to automatically assume that a record large number of deliveries, like we have witnessed in COMEX gold for the last several months, means conclusively that the longs or stoppers are the side demanding, initiating or causing the large number of gold deliveries.

That could very well be the case here, namely, that the deliveries are occurring in record numbers because the longs are demanding the physical gold and that's certainly the way the deliveries are being reported. But to be perfectly objective, it could be (please note, I said could be) that the shorts or issuers are the real initiators of the deliveries. Not enough actual data exists to know for sure, but what hard data does exist, I am more persuaded that it is the shorts or issuers that are initiating the record number of deliveries. What data?

Well for one thing – price data. Not absolute price data, but spread price data – the price differences between spot and nearby futures and nearby futures and more deferred futures months. If you remember, just prior to the start of the COMEX April gold deliveries (when the big gold deliveries started), there was a blowout of the nearby gold spreads between the nearby April and more deferred futures months. Since this spread blowout was so unprecedented, it was hard to comprehend just what it was all about. But now, with months having gone by since late March and the spreads still very wide and gold deliveries continuing to run at record levels, a bit more clarity is emerging.

Probably the most unusual feature to the very wide discounts of the nearby gold months to more deferred months is that this is the opposite of what normally occurs in a commodity in great physical demand. Very strong physical demand for a commodity has always previously resulted in the spot and nearby months trading very strong compared to more deferred months, even to the point of resulting in premiums of the nearby to the more deferred months (backwardation). This is certainly not the case now in gold; if anything, the spreads are at record discounts of the nearby months to the more deferred months – the exact opposite of what would occur if the longs or stoppers were initiating the deliveries.

What could possibly explain this most unusual record delivery and record spread differentials circumstance in COMEX gold futures? Best I can surmise (and I have hinted at this all along), the big concentrated shorts have been forced to bring in record amounts of physical gold into the COMEX gold warehouses and have simultaneously been manipulating the spreads to be artificially wide so as to induce cash and carry spread traders to take or stop the physical contracts that the big shorts are issuing in order to close out their big futures short positions.

Gold prices have been very strong as it is, that if the big shorts just moved to buy back their futures short positions the price would only explode further. So the big shorts came up with another manipulative device to close out their short positions, namely, artificially inflate the spreads so as to induce the cash and carry spread traders to stop gold deliveries.

In simple terms, the big shorts are now manipulating the gold (and silver) spreads, in the hopes of getting out from the results of their decades-long manipulation and suppression of the price by substituting one manipulation for another. The only real question is if the regulators at the CFTC, CME Group and Justice Department are aware of what's going on or are they all still in a regulatory stupor?

As far as the particular names of who is issuing and stopping the August gold deliveries so far, I'm highly encouraged that JPMorgan has stopped more than 4300 gold contracts in its house account, as it would seem to confirm that it hasn't had to dispose of any of the 25 million physical oz I claim it has accumulated over the past nine years and still looks to be accumulating. Other possible tells from the August deliveries so far are that Citigroup, BNP Paribas, RBC and HSBC are emerging as solid candidates for who the big gold shorts may be as a result of heavy issues in their house accounts.

https://www.cmegroup.com/delivery_reports/MetalsIssuesAndStopsYTDReport.pdf

On Wednesday, I speculated that the large inflows of physical metal into the SLV and other silver ETFs might be leveling off and if that were the case, it might indicate that JPMorgan may (have been ordered) to release around 300 million oz of its one billion oz stash. I based this on the prior week's four day surge of deposits into SLV of 36 million oz, or 9 million oz per day. In the now six business days since then, only 9.4 million total oz have been deposited into SLV or less than 1.6 million oz per day. In addition, there was a large 5 million oz withdrawal yesterday from the second largest silver ETF, SIVR.

On top of that, COMEX silver inventories, as just reported, have been growing and my sense is that the growth may be due to prospective deliveries by the big silver shorts as a means of closing out short positions, as has occurred in gold. To be sure, this is all very tentative because I'm talking about very early patterns and may be pushing the envelope. One thing I haven't mentioned is whatever the amount of silver JPMorgan may have been ordered to release, now around 300 million oz, had that physical silver not been released to the market, we would already have exceeded \$100 in price.

Turning to the shockingly bullish Commitments of Traders (COT) report issued yesterday, I had indicated on Wednesday how extraordinary I found to be the lack of a large increase in total open interest in both gold and silver over the reporting week. After all, the price of gold had risen by \$100 to new all-time highs and silver had jumped by \$3 or so to multi-year highs over the reporting week and this was the exact prescription for an explosion in managed money buying and commercial selling that should be reflected in big increases in total open interest. That total open interest in each was actually a bit lower was extraordinary and I hoped that would result in not much additional managed money buying and concentrated commercial short selling.

Instead of only a slight increase in managed money buying and concentrated short selling as hoped for, we got a sharp reduction of each in both gold and silver. Suffice it to say that this was the most unexpected (but welcomed) COT report ever for me, kind of like a kid hoping for some new toy soldiers

for Christmas and waking up to find more toys than imagined, a new bike and, yes, even a pony (no, I never got a pony for Christmas, as we lived in the city). Let me run through the details before trying to explain why I think things turned out the way they did (and let's hope the CFTC didn't mess up the reporting).

In COMEX gold futures, the commercials reduced their total net short position by 25,500 contracts to 278,400 contracts. Thus, we went from the largest commercial net short position in months in last week's report to the lowest total short position since mid-June. What's so fascinating about this is that the price of gold was more than \$200 higher on Tuesday than it was in mid-June. And it wasn't just the headline number that was so surprisingly bullish.

The 8 big concentrated shorts accounted for the bulk of the commercial short covering in gold by reducing their concentrated short position by nearly 20,000 contracts to 210,119 contracts. And this big unexpected concentrated short covering precedes what I believe was further concentrated short covering via the large deliveries on the first day of the August deliveries. JPMorgan joined in on the commercial buying bonanza and I would calculate it to be net long by 5000 contracts (although next week's COT report will reflect the conversion of this long position to physicals, via the delivery process).

The managed money traders sold 23,133 net gold contracts, nearly matching the total commercial buying, consisting of the sale and liquidation of 21,362 long contracts and the new sale of 1771 short contracts. This eliminates much of the potential managed money selling I feared on a selloff. Of special note is that while the other large reporting traders liquidated only a few (287) longs, some other large reporting traders added a sharp 6215 contracts of new shorts - also distinctly bullish.

In COMEX silver futures, the commercials reduced their total net short position by a hefty 14,500 contracts to 47,500 contracts (and here I was hoping for not too much of an increase). As was the case in gold, the commercial net short position in silver went from the largest it had been in months in last week's report, to the lowest (most bullish) it had been since mid-May, when the price was near \$18, or lower by \$6 from where silver closed on Tuesday. From a traditional COT structure perspective, it's hard to imagine anything more bullish.

One notable difference between gold and silver this reporting week, was that the 8 big shorts didn't buyback and cover as large a percentage of the total commercial buying in silver that was seen in gold, but the big shorts did buy back around 4000 shorts, reducing their net short position to 71,216 contracts (356 million oz). The raptors were the big buyers in silver, accounting for more than 10,700 contracts and the biggest silver raptor of all, JPMorgan, appears to have flipped a net short position of a couple of thousand contracts into a net long position of perhaps 5000 contracts. The crooks at JPMorgan are so bad they are really good.

The managed money traders sold 15,881 net silver contracts, consisting of the sale and liquidation of 13,539 longs and the new sale of 2342 short contracts. All of a sudden, there's a lot less potential managed money contracts to be sold, which is clearly bullish. I remain fascinated and highly encouraged that the other large reporting traders in silver continue to sell this week by more than 3500 net contracts. These traders now hold their largest net short position in history at just over 5000 contracts.

Again, assuming there are no massive reporting errors on the part of the CFTC/CME, what the heck

happened this reporting week to have caused the managed money traders in both gold and silver to sell so aggressively on sharply higher prices and not add aggressively to long positions? Best I can tell, these traders became so concerned with the exceptionally large unrealized profits that had accrued in the sharp run up in prices that they decided to book profits and not let them slip away as has occurred consistently over the years.

Plus, prices had gotten so far above the key moving averages that should the managed money traders wait until downside penetrations, most of the profits would disappear completely. So the managed money traders subjectively overrode their objective technical systems. In some ways, it's very understandable as many (including me) have noted the severe overbought technical condition of the gold and silver market.

And it's not the first time I've observed the phenomenon of the managed money technical funds subjectively overriding their mechanical signals, although this is the first time it has occurred jointly in gold and silver. I remember distinctly back in the fall of 2010 when silver ran to prices not far from where we are today and at 30 year highs, how the managed money traders liquidated a large chunk of their silver long positions, ostensibly for the very same reasons they have done so today. As it turned out, that was a big mistake, as silver prices continue to rise for months, eventually hitting \$50.

Will that same thing occur this time? Of course, no one knows for sure, but I think there is a very good chance of a repeat of what occurred that last time the managed money traders pitched long positions prematurely. Certainly, the heavy selling this week eliminates much of the selling I feared could come on lower prices. But there is another matter that towers over the question of whether the managed money traders did the right or wrong thing in selling on the way up. That question has to do with the commercial buyers in this reporting week.

While there is no doubt that the gold and silver managed money traders were the initiators or aggressors in selling contracts this reporting week in booking large profits, it is also true that these traders didn't sell into a vacuum. Like all derivatives contracts (or any transaction) there must be a buyer for every seller. The real story here concerns the buyers, not the sellers. In a very real sense, the important issue at hand is the motivation of the commercial buyers.

It wouldn't take Albert Einstein to conclude that the managed money traders sold to ring the cash register and convert large open and unrealized profits into realized profits out of fear of seeing those profits disappear. But how would Prof. Einstein respond to the question of what motive did the commercial buyers have in aggressively buying all the contracts that the managed money traders cared to sell? Being logical, the good professor would undoubtedly conclude that the motivation of the big commercial buyers was just as strong as the sellers, only the buyers were convinced prices were headed higher, meaning that open losses on short positions would only grow.

The real story in the extraordinary positioning this reporting week is the proof that the commercials are convinced that gold and silver prices are headed higher and with those higher prices will come even larger losses on those who are short. Otherwise, they wouldn't have been so aggressive in rushing to buy all the contracts that the managed money traders chose to sell.

Not coincidentally, this week's extraordinary positioning more than confirms my contention of the past year and longer that concentrated commercial short selling has manipulated and suppressed gold and, particularly, silver prices. That's why the big commercial shorts rushed to cover at all-time price

highs in gold and multi-year highs in silver â?? they believed prices will head higher. By doing so, the big shorts converted more unrealized losses into realized losses, but the real story is the stark admission that the big commercial shorts truly miscalculated in being so heavily short for the past year.

The big commercial short covering also makes a mockery out of those whose premise was that the concentrated commercial short position was somehow a legitimate hedge. Thereâ??s no legitimate hedge that gets put on when prices are low and taken off when prices are at all-time highs. Not that I expect any admission from those denying the manipulation all along, including the regulators, but it truly is amazing how things have worked out along the lines I have outlined.

As far as how things have worked out for the big shorts this week, the answer is not well, even slightly worse than how things stood on Wednesday. As a result of the concentrated short covering this reporting week, more unrealized losses were converted into realized losses, but that doesnâ??t change things much as a loss is still a loss. At yesterdayâ??s late close, the 8 big shorts are out \$2 billion more than they were at last week, pushing total combined losses to \$15.5 billion.

And as I indicated, JPMorgan is no longer short at all and even 5000 net contracts long in both COMEX gold and silver futures. The big story, of course, is JPMâ??s massive long physical position, which I estimate as at least 25 million oz in gold and what may be down to 700 million oz in silver (although knowing these crooks as I think I do, I wouldnâ??t be at all surprised if the actual amounts werenâ??t much higher). But using those amounts, at yesterdayâ??s close Iâ??d peg JPMorgan as ahead by about \$24 billion (\$19.5 billion on gold and \$4.5 billion on silver). Do you think the big commercial shorts know that they have been screwed, blued and tattooed by JPMâ??s double cross yet?

As far as what to expect in prices short-term (since there should be little doubt that prices are headed much higher longer term), I admit that upon reading yesterdayâ??s COT report, I did quickly put on some of the wackiest and reckless kamikaze options that were so short in duration and so far out of the money that I would be embarrassed to acknowledge the details publicly (so please donâ??t ask). It is akin to trying to sink a modern aircraft carrier with a Piper Cub. However, at least it was with â??track moneyâ?? extracted on the recent price pop, since call option premiums are now truly sky-high. Plus I know full-well that COT reports are not to be used as market timing devices, even one as shockingly bullish as this one.

All that said, what I would advise is that if prices do come down in the short term, I think it would be wise to take advantage of any short term selloff in light of what I believe was the commercials just signaling that they expect prices to move higher since they have been the sole impediments to why prices, particularly for silver are not already much higher. As for JPMorgan, it has been expecting and positioned for higher prices for years.

(On a housekeeping note, I am switching this week to the December contract in gold, which does automatically add around \$23 to the price. Iâ??m still using the September contract for silver until the end of this month when Iâ??ll switch to December as well.

Finally, good fortune to all those who may be in the path of the new hurricane, which is supposed to come to New England mid-week, potentially threatening power outages â?? in case you donâ??t hear from me on Wednesday).

Ted Butler

August 1, 2020

Silver – \$24.60 (200 day ma – \$17.35, 50 day ma – \$19.23)

Gold – \$1995 (200 day ma- \$1632, 50 day ma – \$1790)

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