

August 15, 2020 – Weekly Review

Gold and silver prices finished sharply lower for the week, unable to overcome the engineered selloff on Tuesday; as gold ended the week down \$90 (4.4%), while silver ended \$1.90 (6.7%) lower. Still, it was the third highest weekly close ever for gold and silver's second highest weekly close in 7 years.

As a result of silver's relative underperformance, the silver/gold price ratio widened out by nearly 2 points to just under 74 to 1. Of course, that's still a full 50 points tighter than the ridiculous 125 to 1 ratio of just 5 months ago and truth be told, silver is still vastly undervalued relative to gold currently, although only Carnac the Magnificent knows the near term road map (and he isn't saying).

The new Commitments of Traders (COT) report came in mostly as expected considering that the sharp Tuesday selloff wasn't fully complete at the COMEX day session cutoff for the report, but with some surprises, as is always the case. I'll comment on yesterday's late news of Warren Buffett's Berkshire Hathaway establishing a significant position in Barrick Gold during the second quarter (while trimming major positions in US banks). First, let me run through the usual weekly format.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained extreme for the fourth week running, as nearly 10.8 million oz were physically moved. Total COMEX silver inventories slipped ever so slightly by 0.1 million oz to 337.1 million oz, from last week's all-time record high. The silver holdings in the JPMorgan COMEX warehouse did increase by 1.7 million oz to 166.1 million oz.

While it's true that JPMorgan did deliver around 40 million oz in May and July from its house account, the buyers of that silver appear content to leave the metal where it resides, as delivery denotes a change of ownership, different from physical movement. Since I plan rather extensive comments on the subject of COMEX silver warehouse turnover (hopefully on Wednesday), I'll not drill down today to the remarkable recent pickup in weekly turnover intensity, averaging 12 million oz over the past 4 weeks.

The physical inflow of gold into the COMEX-approved warehouses resumed this week, following last week's slight interruption, as 600,000 net oz came into these warehouses, pushing the total to 37 million oz, yet another new record, up 28.5 million oz since March. No change in the COMEX JPMorgan gold warehouses, still stuck at 13.8 million oz. I'm still clinging to my speculation that the great inflow of metal into the COMEX gold warehouses is largely complete, since I'm also still of the opinion that the big inflow was ordered by the regulators of the big concentrated shorts to show they had the metal to back up their paper short positions.

Along those same lines, it's starting to look like the deliveries in the August gold COMEX contract will fall short of the record set in June, despite the much-larger first day deliveries in August. There are less than 700 contracts still open in August and while there are nearly two weeks remaining in the delivery period and new contracts can be added, August at this point trails June by nearly 7000 deliveries. I'm still mindful that JPMorgan has stopped more than 5800 gold contracts (580,000 oz) this month in its own house account and I am starting to feel the bank (or its insiders) may own substantially more than the 25 million oz I claim it holds.

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

Speaking of deliveries, I see that the open interest in the September COMEX silver contract, while still large at 85,000 contracts or so, has now slipped below the open interest in the December contract, a little earlier than typically. What this means is be prepared to see price-reporting services pick up (without notice) the higher (by 17 cents) December contract. Paradoxically, the September-December spread has tightened in recently, which implies an unwillingness of shorts to deliver against the September contract (which is bullish), along with less delivery demands from potential cash and carry stoppers.

While admittedly still too early to know for sure, my speculation about a cooling off of deposits into SLV and other silver ETFs as an indicator that JPMorgan was ordered by the Justice Department to dispose of 300 million silver oz (and not more) is still alive. I thought I would have to abandon my speculation after Thursday's giant 7 million oz deposit into the SLV (which I did find baffling), but yesterday the deposit was completely reversed as the near same amount was withdrawn (making me think Thursday's deposit was in error).

Anyway, three weeks ago, 36 million oz came into the SLV; two weeks ago, it fell to 9 million oz, last week down to 5 million oz and this week only 1 million oz came in, keeping my speculation alive. I'm not expecting this pattern to continue indefinitely and perhaps I should declare victory at this point, as my main premise was to use the declining amounts of physical silver brought into SLV and other silver ETFs as an indication of JPMorgan satisfying its mandated amount of physical silver to be disposed.

The real significance of my very tentative speculation being correct is that from here on out any new physical silver investment demand will not be met from forced disposals by JPM and, therefore, will have a much more bullish effect on price. I still maintain that had JPMorgan not been ordered to dispose of 300 million oz, the price would have already soared to \$100.

I am still amazed, after all these years, to read of condemnations from those bullish on precious metals about the legitimacy of the hard metal ETFs, like GLD and SLV, along with their offshoots. I would wholeheartedly condemn and avoid the leverage precious metals ETFs, but I am still baffled by the criticism of what I consider the bona fide ETFs, like GLD and SLV. Sure, holding physical metal in hand is best of all, but for those who absolutely need professional storage because the dollar amounts involved are so large so as to preclude personal storage, the hard metal ETFs aren't bad. Not only have GLD and SLV been around for 15 years of so, the metal that these ETFs, particularly SLV, have acquired have benefitted all precious metals investors. And it is funny how the staunchest critics of the ETFs always just happen to offer a competing investment vehicle.

Turning to the new COT report, I suppose there might come a day when a sharp selloff isn't accompanied (caused) by managed money selling met with commercial buying, but that day hasn't arrived yet. In addition to the selloff perhaps not being complete at the time of the precise cutoff, the market structure was far from bearish going into the selloff, thereby limiting the amount of positioning. Still, all in all, the results were very much in the expected range.

In COMEX gold futures, the commercials reduced their total net short position by 8000 contracts to 268,300 contracts, somewhat less than the number I would have envisioned, but the managed money

traders did sell nearly twice as much. Still, it was the lowest (most bullish) commercial net short position in two months. The commercial short covering had to come from either the big concentrated shorts or the smaller raptors (or both) and this week the smaller raptors accounted for all the short covering, as they covered nearly 11,000 shorts (booking big losses on every contract), while the 8 big shorts actually added nearly 2900 shorts to 213,591 contracts.

JPMorgan was a buyer of about 4000 contracts, but those were new longs not short covering, which is what it is now net long. In addition to the nearly 600,000 oz that JPM has taken delivery of in August, the new paper buying pushes JPM to the one million oz total gold accumulation this month.

The managed money traders sold 15,780 net gold contracts consisting of the sale and liquidation of 9939 long contracts and the new sale of 5841 short contracts. The resultant managed money net long position of 97,692 contracts (155,418 longs versus 57,726 shorts) is now the lowest (most bullish) in two months, when gold was around \$1700. It is also near the lowest it has been in more than a year, when gold was around \$1400.

The standout here is that the managed money net long position is as bullish as it was when gold was substantially lower in price and that alone suggests the likelihood of substantial managed money selling on lower prices is greatly reduced. Another way of looking at it is by considering that the managed money traders were 140,000 contracts more net long when gold prices were at \$1700 in February just prior to the \$250 price plunge into mid-March. Despite the surge to new price highs since those lows, the managed money traders haven't loaded up on the long side which I consider bullish.

One quirk in the gold report was that the smaller non-reporting traders were big buyers, mostly in reducing shorts by 6000 contracts. The other large reporting traders didn't do much on a net basis and still are close to record net long gold positions.

In COMEX silver futures, the commercials bought and reduced their total net short position by 5500 contracts, to 45,700 contracts. This is the lowest (most bullish) position in 3 months and is only about 12,000 contracts larger than the absolute lows of the price plunge to sub-\$12. So here we are, more than \$14 higher in price and the commercials are only more net short by 12,000 contracts and less net short by 45,000 contracts than they were at the \$18 price highs of February. How the heck did these commercial crooks manage to pull this off? The answer is through the magic of manipulation.

Unlike the case in gold this week, where the raptors and JPMorgan bought while the 8 big traders sold short, in silver it was cohesive and uniform commercial buying by all categories. The raptors bought and increased their net long position by 1800 contracts, while the 8 big shorts bought back 3600 short contracts. Embedded in that buying was JPM (currently classified as a raptor) which bought around 3000 net contracts and now holds around 5000 silver contracts net long (up from 2000 contracts last week). It's worth noting that the 8 big shorts, by a narrow margin, now hold their lowest net short position is several years, at 69,126 contracts.

The managed money traders sold 8149 net silver contracts, consisting of the sale and liquidation of 6626 long contracts and the new sale of 1523 short contracts. The resultant managed money net long position of 23,978 contracts (51,351 longs versus 27,373 shorts) is the lowest (most bullish) in 2 months and less than 14,000 contracts larger than the extreme lows following the epic crash in price to ten year lows a few months back.

It is simply astounding (and bullish) that the managed money traders hold close to 45,000 fewer net long contracts than they did in February when silver prices were in the \$18 range, now that silver is more than \$26. And that JPMorgan could go from 18,000 contracts net short in silver in Feb to 5000 net long now — all on sharply higher prices. Behold the power of market manipulation and control.

While everything market structure-wise looks bullish to me and, accordingly, I expect the path of least resistance for gold and silver prices to be upward, that can't be guaranteed. It is possible for the commercials to try to wring out additional managed money selling on lower prices, but we do appear to be at a point where lower prices and additional managed money selling only makes the structure more bullish.

Turning to yesterday's surprise announcement that Berkshire Hathaway accumulated a significant position in Barrick Gold, the basis for the surprise was due to Warren Buffett's longstanding contempt for gold as an investment. Then again, Buffett is a big fan of positive cash flow and it is likely that the actual decision to purchase Barrick was made by his designated successors and not by Buffett personally. Certainly, it would have been downright shocking had Berkshire made a large purchase of the metal itself or GLD, as Bridgewater Associates, Ray Dalio's giant hedge fund did in the second quarter. That would have been a bridge too far for Berkshire, at least while Buffett is alive.

A number of things could undoubtedly arise from Berkshire's surprise purchase, not the least of which is that it may have flashed a green light for other similar institutional investors to follow. I remember when Berkshire made news in buying shares of Apple Computer not that long ago, despite Buffett's reluctance in investing in companies whose operations he didn't understand. Now Apple, by its tremendous appreciation is Berkshire's largest holding. Who knows — maybe gold stocks might be among Berkshire's largest holdings someday.

Please forgive me for perhaps getting personal, but the news of Berkshire's purchase of Barrick Gold brings different thoughts for me. While Buffett always held gold in contempt as an investment, that wasn't the way he felt about silver. In many ways, Buffett was very much like my departed friend and mentor Israel Friedman, with the only difference being in which of the two held gold in lower regard. Izzy also held diamonds in low regard, even though that was his business for a long time.

You may recall me recently describing how, after I accepted Izzy's challenge to explain how silver could be so cheap in the face of a documented shortage that it took me a year to figure out it was excessive short selling on the COMEX, and how after that, it took me another ten years or so to figure out where enough metal was coming from to satisfy the silver deficit. That much longer process led me to the discovery that precious metals leasing accounted for the uneconomic release of physical silver and gold and how that was the topic I discussed most when I was first introduced to the Internet around 1996 or so.

Like me, Warren Buffett contemplated for many years, decades actually, why silver was so cheap into

the mid-1990s and I am absolutely certain that when I started writing about leasing in 1996, Buffett became aware of it and that's what led him to his large silver purchase in 1997. Leasing explained the dilemma of why silver stayed so cheap for so long. I was happy Buffett jumped on silver, apparently tipped by my research. In fact, I wrote an article thanking Mr. Buffett after his historical purchase and in which the last paragraph ended up on the inside cover of the annual report for Pan American Silver.

<https://www.gold-eagle.com/article/thank-you-mr-buffett>

However glad I was that Buffett had used my research as an impetus for his giant silver purchase (I was a little hurt that he never acknowledged it in any way), my feelings about Buffett began to change when I suspected he was using the 130 million ounces of silver he bought to engage as a leading short seller on the COMEX against the managed money technical funds. His physical position allowed him to sell short in chunks of 20,000 to 25,000 contracts and Berkshire came to play the snooker the technical funds like a master for years.

But that all came to an end around 2005-06 when the introduction of the SLV resulted in Berkshire being caught short on the COMEX and Buffett was forced to give up his physical silver as a means of closing out a giant short position without disclosing he had been shorting and profiting on paper COMEX contracts for years. He couldn't buy back the short position and keep his physical silver because it would reveal he had been speculating on the short side, in effect, manipulating the price of silver which would be devastating to Buffett's squeaky clean image. So he let his physical silver go at around \$7 and shrugged that he sold too soon. Nonsense -- he had no other choice because a buyback of his short position would have revealed what he had been up to for years. Sort of like condemning derivatives as weapons of mass destruction while engaging in them all along.

Perhaps I'm delusional, but those are the memories I have when I view the surprise Berkshire announcement yesterday. I'm sure Warren Buffett wishes he never had to sell his silver, but there's no way he can buy silver again because it would risk dredging up the past, which may hurt his reputation. Besides, how good would it be for one's reputation to buy something at \$27 that you sold for \$7? And I do find some special irony in Berkshire buying Barrick Gold because it was the former poster child for forward selling/precious metals leasing back in the day. Funny how what goes around comes around.

At the close yesterday, the 8 big shorts recovered \$2.6 billion of the \$17.9 billion they were out last week. Still, being in the hole for \$15.3 billion doesn't sound like a financial journey one dreams about longingly. You can bet your bottom dollar the big shorts greatly regret having overplayed the short side starting a year ago. I'm sure Warren Buffet also regrets having grown comfortable in shorting silver 15 years ago.

Ted Butler

August 15, 2020

Silver – \$26.50 (200 day ma – \$17.80, 50 day ma – \$21.00)

Gold – \$1955 (200 day ma – \$1657, 50 day ma – \$1844)

Date Created

2020/08/15