December 12, 2020 – Weekly Review

While price action was somewhat volatile this week (intraweek price extremes in gold were more than $50 and a full dollar in silver), prices ended mixed, with gold up a dollar and silver down 22 cents (0.9%). The relative weakness in silver pushed the silver/gold price ratio out by three quarters of a point to 76.5 to 1. Even though the price ratio has tightened more than ever before since the 125 to 1 reading in mid-March, in time it looks to me that the silver/gold price ratio has another 50 points to tighten â?? at a bare bones minimum. Thatâ??s another way of saying silver is destined to outperform gold by a massive amount in the future.

In fact, hardly a day goes by without another super-bullish price projection for silver, with a target of $50 an ounce becoming commonplace and forecasts for $100 and $200 no longer shocking. While I am in complete agreement with the bullish forecasts (to say the least), Iâ??m still taken aback by the near-universal silence as to why so few question the underlying message of the growing universal bullishness. That underlying, but unmentioned, message is that silver is dirt cheap by every objective measure possible. There would be no near-universal opinion that silver would climb sharply in price if those offering that opinion didnâ??t feel it was dirt cheap to begin with.

Hereâ??s my point â?? how the heck can there be a near universal opinion that silver is dirt cheap and will move higher without those holding that opinion questioning why silver is so cheap to begin with? Iâ??m not questioning why so many are now bullish on silverâ??s price prospects – because there are more legitimate reasons than you can shake a stick at – my question is why so few take a moment to ponder how silver got to be so cheap? It would seem to me to this should be the first question considered.

After all, I doubt that any bullish prognosticator would be so presumptuous as to assume that he or she alone had discovered that silver was dirt cheap and worthy of investment. It would seem mandatory to consider the â??what am I missing?â?• angle to any investment opinion and that angle in silver is why is it so cheap that it is now worthy of a strongly bullish opinion? Of course, here I have the benefit of having been there and done that (and gotten the T-shirt and postcard) as a result of my accidental plunge into contemplating silverâ??s low price in response to a direct challenge by my now dear departed longtime friend and silver mentor, Izzy Friedman, some 35 years ago.

Now that I think about it, Izzy did to me what I am trying to do now, namely, put the horse before the cart â?? explain first why silver is so cheap, before exclaiming why it may be so bullish. In my case, I wasnâ??t trying to justify a previously-held bullish opinion on silver â?? I was just trying to answer Izzyâ??s question as to why it was so cheap. Please donâ??t think less of me, but in a real sense, I was just trying to shut him up and give him an answer to what was a good question that I thought should be answered. As it turned out, of course, it took me the better part of a year to come up with the answer and that set me off on a lifeâ??s journey. The answer I discovered was that silver was cheap, back then and now, for the sole reason of concentrated short selling on the COMEX.

It dawns on me that a remarkable transformation has occurred â?? I have turned into Izzy. Whereas his was a personal challenge to me, mine is much broader in scope. Back then, in the mid-1980â??s, after silver had soared to $50 and crashed due the Hunt Bros. manipulation, there was universal bearishness on silver and as a result, no one was looking for an explanation for why it was so cheap. I only looked because of Izzyâ??s personal challenge. Today itâ??s different â?? everyone seems to be bullish.

Therefore, it seems to me that any one now proclaiming that he or she is bullish on silver has a responsibility to explain why it is so cheap to start with. Back in 1985, I had no such responsibility to defend and explain a bullish opinion on silver since I held no such opinion – I was just trying to answer a direct and intelligent question from someone I respected. Later, when I did discover the reason why silver was so cheap, I couldnâ??t help but become super-bullish and that has remained to this day. Those who are already bullish would seem to have a greater responsibility to explain silverâ??s cheapness. Iâ??ll get into the latest on the concentrated short position in a bit.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses remained close to the average weekly turnover of the past near-decade as just under 5 million oz were moved this week. Once again, most of the movement was of the â??inâ?• variety, as total warehouse inventories rose by 2.9 million oz to 393.8 million oz, another new all-time high. A truckload (around 600,000 oz) came in and out of the JPMorgan COMEX silver warehouse and the total level of silver there remained at 192.8 million oz. Again, the most plausible explanation for the increases in COMEX silver inventories is as a result of delivery demands and the lack of availability of existing inventory to satisfy that demand.

Over at the COMEX gold warehouses, total holdings increased by 0.3 million oz to 37.6 million oz, putting the totals close to recent highs. No change in the JPMorgan COMEX gold warehouses still stuck at 13.15 million oz. (In a moment of hopefully temporary dyslexia, I misstated slightly last weekâ??s JPM totals). Itâ??s still much closer to the truth to call COMEX total gold inventories as unchanged since late July/early August, following an absolutely massive increase of near 30 million oz from late March. In a sign of the two metals being different, while COMEX gold inventories have flat-lined since early August, COMEX silver inventories have grown about 55 million oz.

Turning to deliveries on the big December gold and silver contracts, total deliveries certainly remain high by longer historical patterns, but appear to be flattening out on more recent comparisons. COMEX gold deliveries peaked in the June contract and have steadily and progressively (in traditional delivery months) fallen since then, although compared to previous years, deliveries are still sky-high. Same for silver, starting with the July contract.

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

Trying to connect all the warehouse inflows and delivery data points into the most rational conclusion, it still looks directly related to the concentrated short position of the 8 largest traders. The one last known data point related to all this is first, the tremendous blowout in intra-month spread differentials in COMEX gold and silver in late March to levels beyond carrying charges, to the eventual substantial tightening of those spread differentials to the present. My conclusion is that unprecedented quantities of gold (later silver) were brought in to deliver against the concentrated short position, particularly in gold.

In order to find willing stoppers, the big shorts needed to widen the spreads to induce those not especially interested in gold to take delivery as a superior money market instrument in a zero interest world. Having accomplished that, the spreads have now tightened in because that â??artificialâ?• demand is no longer required. The sum total of all this is bullish for futures prospects for gold (and silver) â?? I mean aside from everything else.

There was a slight (a million oz or so) outflow from the big silver ETF, SLV, this week as well as continued outflows from GLD, as seems to be in line with price action set on the COMEX. There was a 3 million share/ounce increase in the short position of SLV, but that equates to just 600 COMEX contracts and is hardly worthy of special notice. At 13 million shares/oz in a total short position, the short position in SLV is barely above 2% of total shares outstanding.

https://www.wsj.com/market-data/quotes/etf/SLV

Turning to yesterdayâ??s release of the Commitments of Traders (COT) report as of the close of business Tuesday, Dec 8, there was nothing in the headline number that came across as unexpected, although the increase in commercial shorting looked a titch high in silver and a bit lower than expected in gold (had I published a contract prediction). Prices were certainly higher over the reporting week, so no one should have been surprised at the increases in commercial shorting. But there were a fair number of surprises aside from that.

In COMEX gold futures, the commercials increased their total net short position by 7500 contracts to 300,700 contracts, the largest (most bearish) level since July 21, but not meaningfully higher than the level prevailing for months prior to that. By commercial categories, the 8 largest commercial shorts increased their concentrated short position by 5100 contracts to 268,166 contracts and the raptors (the smaller commercials) chipped in with 2300 additional contracts. JPMorgan looked flat for the week and overall in gold.

While the concentrated short position of the 8 largest gold shorts is now (as of Tuesday) at the highest level since March 24, one twist this week (also particularly true in silver) was that the 5 thru 8 largest traders only added 463 new shorts, as the 4 largest traders added 4600 new shorts. Further analysis indicates there was likely only one big 4 trader responsible for the new shorts â?? about as manipulative as it gets and it clearly wasnâ??t JPMorgan.

As to suggestions that a new big short has arisen to take the place of JPMorgan in singlehandedly dominating gold and silver prices, Iâ??m reminded of the famous retort given by Lloyd Bentsen in the 1988 vice-presidential debate with Dan Quayle about Quayle comparing himself to JFK â?? â??I knew him and youâ??re no Jack Kennedyâ?•. I think I know the caliber of JPMorgan as market criminals and any entity pretending to continue that criminal legacy is no JPM.

On the buy side of gold, the managed money traders bought nearly twice as much as the commercials sold, in buying 13,268 net contracts, almost exclusively comprised of new longs in the amount of 13,398 contracts and the new short sale of 130 contracts. Despite the buying, the net managed money long position is still low and bullish.

Even though the net long position of the other large reporting traders decreased by 4362 net contracts, the reduction was entirely due to the new short selling of 4891 contracts, as these traders actually added 529 new long contracts. So while their net long position retreated a bit from last weekâ??s record level, new records were achieved in terms of gross longs. I was a bit concerned these traders might be abandoning the long side on higher prices, but that wasnâ??t the case. Iâ??d sure like to know what these guys did on the sharp selloff commencing on Wednesday. In terms of yesterdayâ??s report â?? these other guys did just fine as far as Iâ??m concerned.

In COMEX silver futures, the commercials increased their total net short position by 5000 contracts to 66,900 contracts. At first I cringed a bit, since this was the largest commercial short position since March 3, but relaxed a bit as I waded through the details. However, it certainly goes without saying that the sole reason for the price weakness in silver and gold after the cutoff was due to the increase in commercial shorting through Tuesday, but Iâ??m sure you knew that already.

As was the case in gold, but a lot more extreme, the breakdown in commercial categories was insightful. The 8 big shorts did increase their concentrated short position by 600 contracts to 76,791 contracts (nearly 384 million oz), while the raptors sold off around 4400 longs (I think I misstated last weekâ??s numbers slightly here as well â?? hey Iâ??m no spring chicken). As was the case in gold, JPM looked flat for the week and likely remains 2000 contracts net short.

The big story is that the 5 thru 8 largest silver traders actually bought back around 2000 short contracts, as the 4 largest silver shorts sold 2600 new short contracts this reporting week. Further, as was the case in gold, the new selling appeared to be confined to one big trader â?? I would argue the same single trader that added in gold. This is something one would think would be of interest to the regulators, but as far as I can tell they are all tied up in self-congratulatory ceremonies for a job well-done in cracking down on spoofing (while the manipulation continues and JPMorgan has slipped out the back, Jack).

https://www.cftc.gov/PressRoom/SpeechesTestimony/tarbetstatement121020a?utm_source=govdelivery

While I try to be consistent and have recently focused on the concentrated short position of the 8 largest shorts in silver and gold, it has always been true that the concentrated short position of the 4 largest traders is the most manipulative and egregious of all. This reporting week, the concentrated short position of the 4 largest silver shorts hit 60,071 contracts (just over 300 million oz, also the highest level since March 3. Similarly, the short position of the 5 thru 8 largest traders is about the smallest it has been since then. What this means is that the concentrated short position is more concentrated (held by the 4 largest traders) than it has been in 9 months.

Please consider these data published by the CFTC. The four largest short sellers in COMEX silver â?? all â??commercialsâ?• â?? hold just over 300 million oz of silver short or 75 million oz each on average. The next 4 largest traders (5 thru 8) hold just under 21 million oz each short on average. Thus, the average holding of the 4 largest shorts in silver is more than 3.5 times the average holding of the next 4 largest traders (In gold, by comparison, the 4 largest traders hold and average short position about double the average short position on the next 4 largest traders). My point here is that the much larger size of the big 4â??s average position in silver compared to the next 4 largest traders is more manipulative on its face â?? since concentration is the hallmark of manipulation.

But please donâ??t stop there. The average-sized position of the 4 largest silver shorts is 75 million oz each, meaning the largest short holds a lot more the 4th largest short. Thinking in terms of what 75 million ounces represents in the real world, I would remind you that 75 million oz is way more than any mining company produces in a year, according to the Silver Institute, so the question becomes who and why such large amounts are held short by so few traders on the COMEX?

https://www.silverinstitute.org/mine-production/

I started out this review by bringing your attention to the growing numbers of commentators who have come to be near-universally bullish on the price prospects of silver, with price projections of $50 (a doubling) being commonplace and understated, if anything. Despite this near universal bullishness, very few of these commentators seem to have addressed the one question begging for an answer, namely, why is silver so cheap to begin with?

The answer, it has seemed obvious to me for more than 35 years, is because of concentrated short selling on the COMEX. This weekâ??s COT report indicates clearly that the 4 largest shorts in silver hold 300 million oz short or 75 million oz each on average. You have to ask yourself â?? who would sell such quantities of silver short at this price and at this time? You also have to ask yourself â?? what would the price of silver be if this concentrated short position didnâ??t exist? Stated somewhat differently, what would the price of silver be if the concentrated short position on the COMEX was more in line with the short positions in other non-COMEX/NYMEX commodities (say closer to 100 million oz, instead of 300 million oz)?

I know I devote what some might see as too much attention to the concentrated COMEX short position in silver (and gold), but that matters little to me because I know this is the issue that matters. I also know that if more would open their eyes to this matter, the manipulation would end sooner than otherwise.

The most remarkable thing is that when Izzy issued his challenge to me 35 years ago to explain the low price of silver, it was so challenging that I practically wandered off into the desert for a full year, thinking of little else. Fortunately, given my long professional futures background at the time, I came up with the answer (although that answer was rejected by nearly everyone, including Izzy, for a while).

Itâ??s different today than it was 35 years ago. No one has to sequester him or herself away to contemplate why silver is so cheap in price. The answer is in the verifiable data from the CFTC and has become more a matter of explaining how a concentrated short position of 300 million ounces held by 4 traders could possibly be legitimate. Of course, it might be more convenient to simply ignore the obvious and compelling data and pretend that it doesnâ??t exist. Thatâ??s been the CFTCâ??s approach for more than 12 years.

Whether anyone steps up to the plate to take this issue on remains to be seen, but it seems to me the remaining big shorts are on borrowed time. A giant short position on what is the worldâ??s cheapest commodity simply makes no sense, except in purely manipulative terms. Otherwise, we would be inundated with every manner of legitimate-sounding explanations, instead of what we do hear instead– the sounds of silence. Cutting to the chase, the long-running silver price manipulation, caused by concentrated short selling appears to be on its last legs and what will follow will be a price rise rarely witnessed.

As far as the financial standing of the 8 big shorts, this weekâ??s mixed price finish brought a modicum of relief. Compared to last Fridayâ??s close the 8 big shorts are better off by around $50 million on the week, to $11.5 billion.

Ted Butler

December 12, 2020

Silver – $24.08Â Â Â Â Â Â Â Â (200 day ma – $20.93, 50 day ma – $24.24)

Gold – $1843Â Â Â Â Â Â Â Â Â Â Â (200 day ma – $1813, 50 day ma – $1879)

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