December 14, 2022 – Pattern Changes

My head is still reeling from contemplating the results in Fridayâ??s Bank Participation Report, for positions held in COMEX gold and silver futures as of Dec 6. As I tried to describe on Saturday, there was a startling lack of new short selling by the banks (both US and non-US) since Nov 1, despite a quite-notable increase in total commercial selling and concentrated selling over the 5 reporting weeks covered, particularly in gold.

Iâ??ll dig deeper into this recent strange phenomenon in a moment, but itâ??s only the latest in a string of pattern changes over the past couple of years (and longer) that have caught my attention. As Iâ??ve stated continuously, Iâ??m always on the lookout for changes in the pattern of things related to the decades-long COMEX price manipulation. My reason is simple â?? because the manipulation has evolved around a strong and rigid pattern of the collusive commercials besting the managed money traders and in doing so, suppressing the price of gold and particularly silver, that any change in that pattern might signal the end of the price manipulation.

The biggest pattern change was the remarkable physical accumulation of silver and gold pulled off by interests related to JPMorgan from early 2011 that lasted for nearly a decade and appears over (although I would note that clients of JPM still appear to be net stoppers of gold and silver COMEX deliveries). All told, the accumulation involved a billion oz of physical silver and at least 30 million oz of physical gold.

More recently, of course, was the almost unbelievable emergence of Bank of America over the past few years as being on the short side of OTC derivatives in silver to the tune of a billion ounces, as a result of it getting duped into a lease arrangement with interests related to JPMorgan. Â I donâ??t think the issue has been resolved and best I can determine, my complaint to the Office of the Comptroller of the Currency resulted not in any denial of my allegations, but only in a sudden revision of the format of the quarterly OCC derivatives report to muddy BofAâ??s silver position. At some point and at much higher silver prices, I do believe the banking authorities will intervene and force some kind of settlement involving allowing Bank of America off the hook for its stupidity; in lieu of the banking crisis not doing so would entail â?? but in any case, this would not appear to be anything but extremely bullish to the price.

In fact, one of things that makes the recent changes in the December Bank Participation report so remarkable is that the stark evidence of much lighter than ever selling by the banks (aka the former big commercial shorts) is, perhaps, the biggest pattern change of all. Of course, I canâ??t certify that the banks wonâ??t reenter on the short side on higher prices â?? after all, 5 weeks does not automatically translate into forever â?? all I can do is examine the data after the fact. And I donâ??t know the identities of the entities which have sold in place of the banks (except to say the new sellers are in the swap dealersâ?? category).

While I can clearly imagine some type of forced settlement to get Bank of America off the hook for its disastrous plunge onto the short side of silver in OTC dealings, because of what that might portend to the banking system; this is also why I am so excited about it not being the former big commercial shorts (aka, the banks) which have gone heavily short since Nov 1 â?? at least, until Dec 6. My reasoning is if the banks donâ??t short heavily on the COMEX in gold and silver, they shouldnâ??t get into trouble should prices explode and require government assistance. If non-banks get into trouble on the short side, that shouldnâ??t be of paramount concern to the banking regulators.

Having repeatedly identified the key determinant to future gold and silver prices as to whether the big former commercial shorts on the COMEX add aggressively to short positions â?? and, admittedly, being wrong to this point â?? how could I not be sensitive to data that point to that determinant? Again, maybe the banks resume their traditional aggressive short-selling in the future and their lack of selling to this point was but a temporary respite â?? thatâ??s something weâ??ll come to learn in the fullness of time. But not to acknowledge there has been a remarkable sea-change from Nov 1 to Dec 6 could be a serious miscalculation.

As to what caused, at least until Dec 6 (the cutoff for the most-recent BPR and COT report), the banks to refrain from more aggressive selling, it looks to be rooted in the realization that the short side was the wrong side to be on, perhaps with or without encouragement from the CFTC; but more related to the growing physical tightness, particularly in silver. Itâ??s somewhat ironic that the lack of bank selling is much more pronounced in COMEX gold, considering the more pronounced physical tightness in silver, but thatâ??s what the data suggest to this point. Certainly, itâ??s not critical at this point.

In the face of the data pointing to the distinct lack of bank selling in COMEX gold and silver futures until Dec 6, I canâ??t help but notice that the rather impressive price rally of the past month and a half, some $200 in gold and $5 in silver, seems underappreciated â?? almost to the point of being stealth-like in nature. Perhaps this is due to the lack of the typical performance of the mining equities or perhaps to a â??fatigueâ?• brought about by the decades of price suppression, particularly in silver. Still, on an objective basis, the distinct lack of enthusiasm over the recent rally must be considered bullish from contrarian sentiment perspective.

Due to the confusing effect of the rollover from December to February artificially boosting gold prices, yesterday was the first day gold upwardly penetrated its 200-day moving average decisively, after spending the better part of 8 months below that average (or its 50-day moving average). Silver has been above its 200-day moving average (and all other key moving averages) for a couple of weeks and the lack of bullish enthusiasm and sentiment is palpable.

I couldnâ??t help but notice that back on Feb 1, when both gold and silver had sold off to be below all their key moving averages and would soon rally strongly by $200 in gold and $5 in silver (to what turned out to be the price highs of the year on March 8) that the COMEX market structure was actually more bullish this Dec 6, than it was on Feb 1. Â Now, we have just rallied by those same dollar amounts and the market structure on Dec 6 was more bullish than it was last Feb 1. Yes, we have deteriorated in the market structure over the past 5 weeks, but to think that the deterioration only brought us to positioning levels where prices moved sharply higher from last Feb 1 is nothing short of remarkable and underscores the recent move higher being of the stealth variety. And this leaves out completely how the banks were more heavily short back on Feb 1 than they were on Dec 6.

No doubt, Fridayâ??s new COT report should feature further deterioration (managed money buyingand commercial selling), seeing as gold penetrated its 200-day moving average on high-volume on yesterdayâ??s cutoff for the reporting week, while silver hit new price highs; to say nothing about the price rally over the reporting week of more than $50 in gold and $2 in silver. No deterioration would be akin to the earth changing its axis or orbit.Â The question is how much deterioration and I would plan on plenty.

Still, such deterioration must be expected and the new key issue of how much bank selling was involved will be hard to tell since there will be no Bank Participation report until next month. After the sharp rallies of the past month or so, I would never rule out sharp price shake-outs to the downside, because as I described to a subscriber who asked, daily price action on the COMEX is best described as day-trading street fighting â?? something Iâ??m not at all skilled (nor interested) in dwelling upon.

But the sum of the pattern changes of late are more than interesting and have crossed over to the compelling state. Particularly, the ongoing physical movements in the COMEX warehouses, which have recently intensified and have now spread to the somewhat frantic and counterintuitive physical movements in SLV and other silver ETFs continue to have escaped widespread notice â?? for reasons hard to comprehend.

I can sort of understand the lack of notice or commentary surrounding the stunning findings in Fridayâ??s Bank Participation report, since this data series is somewhat esoteric and not widely followed. But taken together, the frantic physical silver turnover and the new BPR, add up to a compellingly bullish story to me. I donâ??t have a clue as to what impact the latest Fed pronouncement will have on gold and silver prices in a couple of hours from when I am writing this â?? all I do know is that whatever the Fed says will only be a cover story or excuse for whatever happens price-wise.

If gold and silver prices do sell off, I believe it will only be for a short time; if prices pop, it could (and should) lead to dramatically higher prices. And please remember, the heaviest percentage of COMEX trading volume ends at 1:30 EST, before any Fed pronouncements are made, which necessarily enhances price volatility.

The price path for gold and silver year-to-date has been among the most unusual Iâ??ve observed over the past 40 years (and longer) and looking back seem to have solely been determined by COMEX positioning changes between the COMEX commercials and managed money traders. This, despite this year being among the most tumultuous in terms of financial and world events in memory. What this proves is that COMEX positioning is every bit the dominant price effect I have always represented it to be.

At the same time, while COMEX paper positioning has been the price-determinant to this point and, most likely, in the immediate future, the degree to which it has distorted prices, particularly in silver, has been so extreme that the physical market can no longer operate under paper control. Not because I say so, but because of the signals from the physical market say so, in terms of unprecedented premiums and delays in the retail market, the frantic physical turnover in the wholesale markets (COMEX warehouses and the silver ETFs), imports to India and flat world production for years.

It doesnâ??t matter much if the recent rally has been stealth-like and largely disbelieved; if supply canâ??t keep up with demand in physical terms, the COMEX paper scam can no longer operate as it did before â?? and before in this case means for the last 40 years. It is my hope that the recent stunning changes in the behavior of the banks in not shorting aggressively, as represented in the Dec BPR, signals that they, too, understand how things have radically changed in physical terms. I still maintain that if the banks which have always shorted heavily enough to cap and contain all past silver and gold rallies, refrain from doing so, silver and gold prices will experience a profound upward revaluation. Time, and not much of it, will tell if this is whatâ??s occurring.

The Fedâ??s decision to raise interest rates by 50 basis points, widely expected, and coupled with a harder-line than expected in continuing comments, has resulted in a knee-jerk selloff in gold and silver, although not particularly deep. Price movements have been quite volatile in very thin trading and I am using closing prices that happen to be current at the time Iâ??m sending this (and with absolutely no assurance what they will be when you read this).

Ted Butler

December 14, 2022

Silver – $24.00Â Â Â (200 day ma – $21.37, 50 day ma – $20.75, 100 day ma – $20.02)

Gold – $1814Â Â Â Â Â Â Â (200 day ma – $1799, 50 day ma – $1719, 100 day ma – $1728)

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