December 2, 2020 – Bitcoin versus Gold (and Silver)

Before getting into the Bitcoin issue, it turns out that the topic of much of Saturdayâ??s discussion, the likely appointment of Gary Gensler as Deputy Treasury Secretary, didnâ??t come to pass, as a different candidate was nominated. Iâ??m not sure why the Reuters article I referenced was so off, but so be it. I still stand by my take that JPMorgan illegally gamed the US Mintâ??s Bullion Coin Program in acquiring massive amounts of Silver Eagles while being the largest COMEX short seller from 2011 through 2016 and will take up the matter privately when the new hierarchy of the Treasury Department is officially installed. As to where Gensler may surface, Iâ??ll wait for official confirmation but see no reason to doubt that he has the ear of the incoming administration.

I caught a TV advertisement this morning that was a first as far as I know, namely, an ad suggesting investors dispose of gold and switch the proceeds to Bitcoin. The ad portrayed gold as cumbersome and non-utilitarian compared to Bitcoin which was said to be much more useful and a better store of value. I understand completely the motivation behind the push to switch from gold to Bitcoin by promoters for crypto currencies (although I donâ??t necessarily agree with it), as it makes sense that there appears to be some room for an asset which has a total market capitalization of $11 trillion (gold) to come into an asset with a $350 billion market cap (Bitcoin).

I did find it a bit disingenuous for the Bitcoin promoters to label gold as non-utilitarian compared to Bitcoin, since the only real use for Bitcoin (as far as I can determine) is as a speculation â?? albeit a very successful speculation to this point for many. However, Bitcoinâ??s use as a means of payment appears to be near non-existent and its only rationale is as a speculation that has and may continue to increase in price. But my reason for bringing up the TV ad is not to debate the merits of gold versus Bitcoin, as I believe readers know Iâ??m not a diehard gold bug â?? although I do devote much effort in exploring what makes it tick pricewise.

So, I would like to stir things up a bit and make a different and much more compelling comparison, namely, the comparison between Bitcoin and silver. Letâ??s start with respective market capitalizations where, as just stated, Bitcoinâ??s total market cap is $350 billion. Thatâ??s 7 times the current market cap for all the silver in the world in the form of 1000 oz bars â?? the only form of silver that really matters. So whereas goldâ??s total market cap is more than 30 times Bitcoinâ??s market cap, a fact readily pointed out by Bitcoin advocates, Bitcoinâ??s market cap is 7 times larger than silverâ??s market cap. Accordingly, youâ??re not about to see any TV ads from Bitcoin promoters comparing it to silver.

As far as comparing Bitcoin (or gold) to silver in a utilitarian sense â??youâ??ve got to be kidding me. Imagine for a moment, as Iâ??ve done in the past, that if all the gold in the world suddenly disappeared and vanished from existence what would happen? The answer, aside from great wealth disappearing and some void lost by missing jewelry and personal adornment, would be not much. Ask the same about Bitcoin and the answer would be the same, although I would admit that something that had been around for 5000 years would likely be missed more than an item that didnâ??t exist much more than 10 years ago.

Now ask what would the reaction be if there was suddenly no silver? The answer would be a world no one would recognize. As the greatest conductor of electricity (among other attributes), what would make I-phones, TVâ??s, computers, solar panels and electric (and gas-powered) vehicles and all the devices that power the modern world so efficient or even possible? Heck, without silver, it wouldnâ??t be possible to even run an ad on TV promoting Bitcoin (or anything else). In fact, thatâ??s one of the implied knocks against silver, namely, that because it is so widely used in industry that somehow that makes it inferior. Again, are you kidding me? Living without gold or Bitcoin would impact very few â?? trying to live without silver would impact virtually every person in the world.

Finally, thereâ??s the matter of market mechanics and price. Truthfully, I donâ??t understand the full market mechanics in Bitcoin (I donâ??t think anyone does). I do know that there is no concentrated short position, primarily because the total derivatives position in Bitcoin is so small so as to preclude the possibility of downside price pressure from such a concentrated short position. With no chance of artificial and manipulative downward price pressure from a concentrated short position, Bitcoin can (and has) soared to extremely high price levels. Then again, according to Bloomberg, there may be the opposite circumstance â?? a concentrated long position in Bitcoin where more than 90% of the coins are held by 2% of the holders. If true, this would constitute an upside price manipulation in its purest form. As such, I would not be surprised if the regulators eventually react to what appears could be an upside manipulation in Bitcoin.

In gold and, particularly in silver, itâ??s the opposite â?? the existence of a documented downward price manipulation due to the existence of a concentrated short position revealed by the regulators themselves. Think of how crazy and unsustainable this is â?? the CFTC is ignoring its own published data in silver showing the largest concentrated short position of any commodity and overlooking a potential upside manipulation in Bitcoin. When this is fully revealed, the price consequences are bound to be other worldly â?? but certainly portend much higher silver prices.

But there is one thing about Bitcoin that has reconfirmed one of my oft-repeated observations that is not at odds with silver (or gold) and that is that collective investor behavior dictates that higher prices create and beget more collective investment. Bargain hunting seems to be confined increasingly to shopping for consumer goods â?? the higher investment items move, the more collective demand increases. This phenomenon is certainly not confined to Bitcoin, take a look at stocks and residential real estate. Iâ??d go so far as calling this collective investment demand caused by prices moving higher as primal and non-selective. Anything that catches the publicâ??s fancy is subject to this force of nature.

Therefore, as regards silver, it would appear to be only a matter of time before a coming collective investment surge, set off by a sufficient yet precisely unknown in advance rise in price, sets off an investment stampede that will drive prices unimaginably higher still. If it can happen in Bitcoin and other investment assets, why wouldnâ??t it come to silver? In fact, it has come to silver in the past, with an important distinction – all past price moves higher, particularly the price run into 2011, have been aborted by the very same manipulative force that accounts for silverâ??s current depressed price â?? the concentrated short position on the COMEX.

The one thing that has kept the price of silver from exploding and generating the self-fulfilling momentum of collective investment buying on higher prices is the artificial control of the COMEX concentrated short position. Thatâ??s why I spend so much time devoted to this specific issue – itâ??s all that matters. Naturally, the question must be asked if the concentrated short position can exist (and expand) indefinitely and keep silver prices suppressed forever? After all, by my own accounts, it has lasted for more than 35 years, so why not many more years to come?

Iâ??ve outlined my reasons for why the concentrated short position in silver is not likely to last long and those reasons include the financial hammering the big shorts have taken for the first time in decades, the masterful double cross pulled off by JPMorgan and the growing physical demands for silver â?? against which a paper short position must prove ineffective in time. Let me add something increasingly obvious â?? the inability of those involved or who should know better to address the issue. Itâ??s a phenomenon Iâ??ve lived through on a highly personal basis that I still have trouble fully comprehending.

Even though I have been remarkably consistent (twice a week for more than ten years) in calling JPMorgan and the CME Group (owner/operator of the COMEX) crooks and criminals for participating and allowing the silver manipulation to exist by virtue of the concentrated short position, these crooks have turned the other cheek and ignored what would have always been considered slanderous accusations. Please know that JPM and the CME are perhaps the most aggressive of all financial institutions in legally challenging any inference or allegation of impropriety and here I am accusing them of the most serious of financial crimes (manipulation) and neither can utter a peep of protest (yes, I email them everything I write â?? including this missive).

Even the CFTC, the federal commodities regulator, hasnâ??t been able to mount any type of explanation for the concentrated short position in silver for more than 12 years, after lying in 2008 that there was no problem (despite the largest silver and gold short, Bear Stearns going belly up). One would think that if there was a legitimate explanation for the concentrated short position in COMEX silver, then the CFTC would be forthcoming with that explanation and that JPMorgan and the CME would have shut me up and closed me down long ago. But, clearly, thatâ??s not the case.

The most plausible explanation for why JPMorgan, the CME and the CFTC havenâ??t responded where they would have all responded in the past is because none can come up with a legitimate rejoinder. And itâ??s not just the market criminals and pretend-regulators unable to come up with any semblance of an explanation for the obviously illegitimate concentrated short position – no one else has as well. The combination of all these factors points to the illegitimate short position not enjoying a long life from this point on.

Still waiting ahead for silver is the day the industrial users start to experience delays in physical shipments, crowded out by growing investment demand. When, not if that occurs, you can add another bullish force not possible in Bitcoin, gold or any other item, except for silver given its highly unique dual demand profile. That day is coming, even if no one can predict in advance which day it will be. The only thing that matters is to be fully invested before that day arrives and not to wait for the confirmation of industrial user delivery delays.

Turning to other matters, the price lows of early Monday look like important price lows to me. Itâ??s not just that silver and gold prices snapped back sharply from the early Monday lows or that the COMEX market structures in each appeared to be beyond the point of being washed out much more, it was the realization that through the last COT report (as of Nov 24) how little the 8 big shorts were able to reduce their concentrated short positions and, in fact, increased their short position in gold to more than six month highs. I did mention this in Mondayâ??s abbreviated COT report comments, but have been thinking about it since.

At the all-time gold price highs of late July/early August ($2060), the concentrated net short position of the 8 largest traders was around 210,000 contracts (21 million oz). In the most recent COT report that concentrated short position is now 249,000 contracts (24.9 million oz), with gold prices having declined by more than $250 from the highs. Gold prices declined by more than $250 as nearly 40,000 short contracts (4 million oz) were added by the 8 big shorts.

Previously, on April 28, with gold trading around $1700, the 8 largest traders held 263,000 contracts (26.3 million oz) net short and into late July/early August had bought back and reduced their net short position to 210,000 contracts (21 million oz). Thus the buyback of 53,000 contracts (5.3 million oz) coincided with a $350 rally in gold prices â?? just like the new short sale of 40,000 contracts coincided with a $250 decline in gold prices. Substitute the word â??causedâ?• for â??coincidedâ?• in both cases, something the regulators refuse to do.

But what I think most about the above calculations is what now? Yes, the sale of nearly 40,000 new short contracts by the 8 big traders in gold accounted for the drop in gold prices of more than $250 and I couldnâ??t argue that the new short sale of many more additional contracts wouldnâ??t pressure the price of gold lower â?? but where are we going with this? Eight crooked banks and financial entities will be able to add endless new short contracts and drive prices lower forever until what â?? prices reach zero? (Or less than zero, as occurred in oil on another of the CME Groupâ??s crooked exchanges in April).

How much more egregious does the concentrated short selling in COMEX gold and silver have to get before it is rejected and overcome, if not by the regulators (whose job it would seem to be), but by other market participants? Something tells me we are quite close to other market participants overcoming the blatant manipulation by the 8 big shorts. Maybe thatâ??s wishful thinking on my part, but this goes back to whatâ??s next? With the largest concentrated short position in gold in many months and a much larger overall short position in silver after nearly 4 months of price consolidation/decline in each, do the big shorts intend to add even more new shorts or begin to buyback and cover a short position already beyond legitimate explanation?

Of course, time will tell, but increasingly, it looks to me like the 8 big shorts are stuck. If they add even more new shorts, it will show up in the data, increasing the pressure to justify the position. If they begin to buyback and cover the shorts that will show up in the data and in higher prices. A long term subscriber asked me this very question this week, namely, what are these big shorts accomplishing â?? they still appear stuck on the short side and unwillingly to cover their big shorts. Windell wanted to know if the big shorts knew a bailout was coming for them and what he was missing.

I told him he wasnâ??t missing anything. No one rushes to declare bankruptcy or take a big loss that appeared unavoidable; these are things you put off until the last possible moment. The big shorts may look like they are in control by not covering, but that doesnâ??t mean they can cover without losing control. Letâ??s face it â?? if these 8 big short crooks were so smart and ahead of the game, then why are they in the position they are in, namely, sporting their biggest losses ever with incredibly few options for extricating themselves gracefully?

And if by some miracle (a miracle only in gangstaâ?? paradise) the big shorts get out from under their manipulative silver and gold short positions, then what? Will they not then quit a crooked game they long overstayed? As always, it comes down to whether these crooks will add aggressively to new shorts on rising prices â?? whether now or later. I think their time is up, but that remains to be seen.

As far as what to expect in Fridayâ??s COT report, the rally on yesterdayâ??s cutoff, might have offset what would have been certain managed money selling and commercial buying thru Monday, making expectations difficult. Total open interest declined by more than 17,000 contracts in gold and nearly 10,000 contracts in silver, but a good portion of that was likely due to deliveries, further clouding expectations. All this, plus the perceived â??washed outâ?• nature of the current market structures in both gold and silver limiting positioning changes. The downward price movement over the reporting week should have resulted in managed money selling and commercial buying, but whether that occurs remains to be seen.

I will say that this past reporting week, ending yesterday, would appear to me to have been the last great opportunity for the 8 big shorts to buy back short positions on lower prices and if they hadnâ??t done so, then I donâ??t know what their plan is â?? if they even have a plan. I suppose they could be planning to really bomb prices to the downside, but Iâ??m sure they planned to do so long before now as well. Hereâ??s to hoping they have no plan or that it fails.

While the last three weeks through Friday had brought significant relief to the 8 big shorts, the rally that commenced yesterday ended that relief, at least for now. At todayâ??s prices at publication time, the rally starting yesterday has added back about $1.4 billion to a total loss now amounting to $11.2 billion. I would note that the 8 big shorts had whittled down their total losses to around $9.5 billion on Monday, which coincidently just happened to be the month end â?? a day mark to market regularly occurs.

The rally in gold brought prices back above its 200-day moving average, following two days of closing below that average. Silver never did penetrate its 200 day moving average to the downside and the rally starting yesterday has seen it challenge its 50 day moving average for an upside penetration.

(In a housekeeping note, I am switching to the COMEX February contract for gold and March for silver for closing price purposes. This adds about $5 to the price of gold and six cents to the price of silver)

Ted Butler

December 2, 2020

Silver – $24.15Â Â Â Â Â Â (200 day ma – $20.68, 50 day ma – $24.15)

Gold – $1832Â Â Â Â Â Â Â Â Â Â (200 day ma – $1804, 50 day ma – $1886)

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