

December 26, 2020 – Weekly Review

In a holiday-shortened and subdued trading week ended Thursday, gold and silver prices ended the week slightly lower, with gold off by \$3 and silver down by 5 cents. Still, it was second highest weekly close for gold in more than a month and the second highest close for silver in more than 3 months. There was no change in the silver/gold price ratio, which remained at 72.5 to 1, also the second highest weekly close in three months favoring silver.

With four trading days remaining for 2020, the 8 big shorts saw a scant measure of relief in their total losses by \$100 million to \$13.3 billion. There's no way (that I know of) to predict where gold and silver prices will close out the year next Thursday, but unless an unexpectedly large selloff occurs over the next four trading days, the 8 big shorts will have experienced their worst year in history. Last Dec 31, the 8 big shorts in COMEX gold and silver futures ended the year some \$3.8 billion in the hole, to that point their worst yearly showing. This year looks destined to add some \$9 to \$10 billion in additional losses.

Since I intend to make this the main theme of today's missive, let me run through the usual weekly highlights first, before getting into the potential fate of the 8 big COMEX shorts.

The turnover or physical movement of metal either brought into or removed from the COMEX-approved silver warehouses was again lighter than the weekly average movement over the past now near 10 years, no doubt influenced by the holiday shortened week. Some 3.2 million oz of silver was moved this week, as total inventories rose by 1.9 million oz to 395.9 million oz, another new all-time high. No change in the JPMorgan COMEX silver warehouse, still at 191.6 million oz.

For the year, COMEX silver inventories have risen by nearly 75 million oz, with total annual turnover four times that amount. While it's hard not to get used to something that has occurred weekly for nearly ten years, I would point out that the physical turnover in the COMEX silver warehouse inventories is still shockingly high and unprecedented, with the only thing more shocking being the silence that has accompanied it. Something has caused this unprecedented silver turnover and all signs point to industrial demand. And with silver prices up fairly substantially for the year, all thoughts of increasing silver inventories being bearish continue to look misplaced.

COMEX gold warehouse inventories took a jump of 0.4 million oz to 38.2 million oz, also a new record high, but not yet that much of an increase to suggest a resumption of the mega-increase of 30 million oz that occurred from April to July. This week's total increase was largely the result of a 0.44 million oz increase in the holdings in the JPMorgan COMEX gold warehouses, now up to 13.59 million oz, also a new record.

Deliveries against the big December COMEX gold and silver futures contracts are winding down and while the total number of deliveries is still high on a historical basis at nearly 30,000 contracts in gold (3 million oz) and more than 9200 contracts in silver (46 million oz), both amounts are substantially lower than the number of deliveries over the past six months. Customers of JPMorgan are still the standout net stoppers (takers) in gold and combined with the house account of JPM have stopped 10,000 contracts.

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

There were 2.5 million oz withdrawn from the big silver ETF, SLV, this week, following last week's 9.5 million oz inflow, so nothing particularly out of order. The latest short report indicated a slight increase in the short position of SLV, as of December 15, as 13.34 million shares (ounces) were held short. That's still just 2.3% of the total number of shares outstanding and not particularly alarming, as was also the case in GLD, the big gold ETF.

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

I plan on brief comments late Monday (around 6 PM EST) on that day's holiday-delayed release of the COT report for positions held as of the close this past Tuesday and am still expecting some deterioration (managed money buying and commercial selling), but not enough to radically alter the general washed out nature of the market structures in gold and silver.

Getting back to what I believe to be the most critical feature for silver and gold prices, the fate of the 8 big shorts on the COMEX, there can be little doubt that these big shorts have fared quite poorly this year and going back to the summer of 2019. Since I chronicled the quarterly mark to markets for the 8 big shorts in Wednesday's article, I won't repeat that here today, but I would like to highlight a few points not covered.

Following the worst (to that point) quarterly finish for the 8 big shorts on Sep 30, when they were out \$12.8 billion (based upon a gold close of \$1897 and a silver close of \$23.50), the 8 big shorts did succeed in rigging prices lower into the Nov 30 month end, when they recovered \$3 billion in total losses, as gold prices fell to \$1776 and silver closed at \$22.53. Since then, gold prices have rallied just over \$100 and silver has climbed by nearly \$3.50, with gold completely recovering its losses into Nov 30 and with silver exceeding its losses into Nov 30 by nearly \$2.50.

My point is that while both metals have recovered sharply since the contrived price lows into Nov 30, silver has outperformed gold, not something that has regularly occurred on the rally that commenced in the summer of 2019. In fact, on the quarter and first half mark to market as of June 30, 2020, when the big shorts were out nearly \$10 billion on gold's \$1800 close and silver's \$18.50 close, nearly all the total losses were attributable to gold. Since then, the rise in silver prices has contributed more to the 8 big shorts' losses than has gold. I admit to being biased in favor of silver, but the recent outperformance of silver relative to gold seems to portend particular potential jeopardy for the 8 big shorts.

While the \$13.3 billion in total losses to the 8 big shorts in COMEX gold and silver as of Thursday are still predominantly gold-centric (more than \$10 billion), silver now contributes more to the total loss than ever and is showing signs of accelerating. Together, the total losses would seem likely to overwhelm the 8 big shorts at some point, but when it runs, nothing runs like silver. In the most recent COT report, the 8 big silver shorts held 390 million oz (78,000 contracts) short, with the 4 largest shorts holding 305 million oz (61,000 contracts) short.

A doubling of the silver price to \$50 (something that has happened twice before) would bring \$10 billion in additional losses to the 8 big silver shorts, of which the 4 biggest shorts would incur \$7.5 billion in additional losses. And this leaves out commensurate losses in gold, which would undoubtedly rise

should silver rise as outlined. Therefore, it is far from inconceivable for the current very large losses (\$13.3 billion) of the 8 big shorts in COMEX gold and silver to sharply accelerate, perhaps doubling or more.

In my recent interview with Chris Marcus in which I referenced the massive losses and subsequent short covering in the stock of Tesla, I left out how published reports put the losses of the Tesla shorts to be the largest ever and in the vicinity of \$20 billion. In those published reports, there was no mention of any particular concentration in the Tesla short position and it is thought the short position in that stock was widely held and that older shorts which were forced to buyback and cover on the way up were partially replaced by newer shorts attracted by what were and are thought to be unsustainable high prices for the stock. But that does not appear to be the case in gold and silver, as the concentration of short positions on stocks is not publicly reported.

Government data indicates that the short position in COMEX gold and silver is concentrated and held by the 4 and 8 largest shorts. In fact, there would be no commercial short position in silver if the 8 largest shorts weren't short 78,000 contracts (390 million oz). Moreover, there is not the slightest indication that the big shorts have ever really bought back and covered short positions and been replaced by new shorts – except for JPMorgan's truly remarkable exit and double cross of the other big shorts.

Since there has been no notable buying back by the big gold and silver shorts to date, there hasn't been the price impact that short covering had on Tesla stock – yet. How long that remains the case will play out in the time ahead, but that was also largely the case in Tesla stock for the better part of a decade, as the short position remained large and the price of the stock stagnated. The important point is that the gold and silver game has already changed in ways many thought were impossible.

Until the past year and a half, the big commercial shorts never lost, always succeeding (or breaking even) in inducing their principle counterparties (the managed money technical funds) to sell on lower prices, thereby giving the big shorts the opportunity to buy back added short positions. Not this time. Add in JPMorgan's masterful double cross and massive accumulation of physical gold and silver and the big shorts appear to be trapped. The standard "wash, rinse, repeat" price cycle of the past has largely been confined to very short term moves which haven't been sufficient to alter the persistent increase in gold and silver prices this year.

For the better part of six years or longer (2013 to 2019), gold and silver prices languished, with gold averaging \$1200 and silver maybe \$17, if that, as the big shorts (aided and led by JPMorgan) lorded over the managed money traders. But in a relatively quick year and a half in gold and six months or so in silver, gold prices surged to new all-time highs and silver to 7 year highs. Something accounts for the stark change in these price patterns. That something to me is mostly JPMorgan having finally positioned itself for the upside move by acquiring more physical gold and silver for its affiliates and insiders than any non-governmental entity in history and completely eliminating its paper short positions. And even though I think it's quite early in the move higher, particularly in silver, the fact that JPMorgan is already in the black by \$25 billion is difficult to fathom.

Many have insisted that the decades-old silver and gold manipulation is the work of the US Government (or other governments) to contain prices so as not to alarm currency or other markets. While I do admit US regulators, including the CFTC and Justice Department, have dropped the ball in not cracking down on an increasingly obvious manipulation operating on the COMEX via the

documented concentrated short position, I do believe that negligence is more rooted in not being able to acknowledge the manipulation, as such an acknowledgment now would bring certain disgrace on these institutions for missing it for decades. I'm hopeful the coming resolution of the concentrated short position will settle this matter once and for all.

Some late news. One of the greatest speculative experiences of all time – Bitcoin and other crypto currencies – is still in full force, since there is never any cessation to trading. As I have indicated in the past, I wouldn't begin to guess at a top, other than when all those who will buy have bought. I'm a value-oriented investor and seeing as I wouldn't know how to begin to value Bitcoin (other than as a near perfect speculation), neither could I ever participate (like is the case in many other things). That said, as a value investor, it's hard not to make relevant comparisons.

At current Bitcoin prices (near \$26,000), someone with that amount of money to invest could buy one Bitcoin, or 14 ounces of gold, or 1000 ounces of silver. In the short run, it may very-well prove that Bitcoin will continue to outperform (since it is in the throes of a price momentum surge), but it's hard for me to see how silver won't prove to be the superior investment in the long run. One thing I do take as (another) lesson learned from observing the price momentum surge in Bitcoin is that there's nothing quite as powerful as a price surge that feeds on itself; with prices rising simply because prices are rising – a self-fulfilling cycle until it burns itself out and in which it's foolish to call a top or get left holding when prices do top. Just like it is occurring in real time in Bitcoin, I very much anticipate that this is a phenomenon coming to silver.

Finally, I hear from a very reliable source of unusual demand for 1000 oz industry standard bars of silver beyond the more typical public signs I generally report and rely on. In this case, the information was not deliberately sought out, but uncovered almost accidentally in the regular course of business. Certainly, there has been extraordinary demand for retail forms of silver for many months as reflected in persistent premiums. While retail demand for silver is important on a longer term basis, it is demand for industry standard 1000 oz bars that sets the price (after paper COMEX dealings). I was surprised to hear of the reported pickup in demand for 1000 oz bars and will pass along any further developments, although I'm not expecting much more given how the info came about.

Since I don't post it regularly, the 100 day moving average in gold is now down to \$1908 and that's the new – all clear – technical fund buy signal. Silver's 100 day moving average is now \$25.29. Next report late Monday after the COT report is published.

Ted Butler

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Silver – \$25.95 (200 day ma – \$21.31, 50 day ma – \$24.45)

Gold – \$1883 (200 day ma – \$1823, 50 day ma – \$1872)

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